Falkland Islands Holdings plc

Annual Report 2008

Falkland Islands Holdings

Contents

Financial Highlights

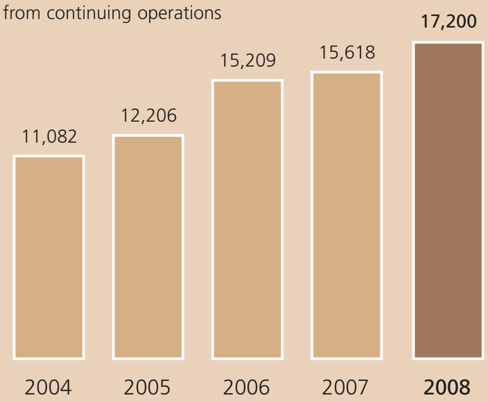
FOR THE YEAR ENDED 31 MARCH 2008

	2008 £'000	2007 £'000	*Change %*
Revenue from continuing operations	17,200	15,618	*10.1*
Profit before tax	1,909	2,034	*(6.1)*
Underlying profit before tax*	1,937	1,654	*17.1*
Diluted earnings per share before amortisation and non-recurring items	16.3p	13.9p	*17.3*
Dividend per share	8.0p	7.0p	*14.3*
Cash flow from operations	2,979	1,965	*59.4*
Net asset value per share	376p	292p	*28.7*

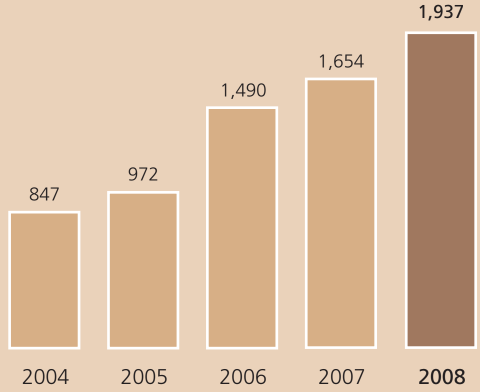
*Defined as profit before tax, amortisation and non-recurring items.

Revenue (£'000)

from continuing operations

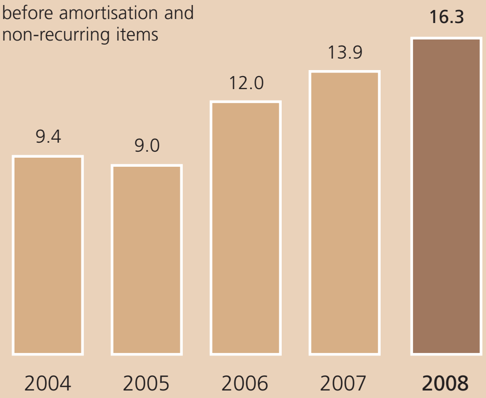


Underlying profit before tax* (£'000)

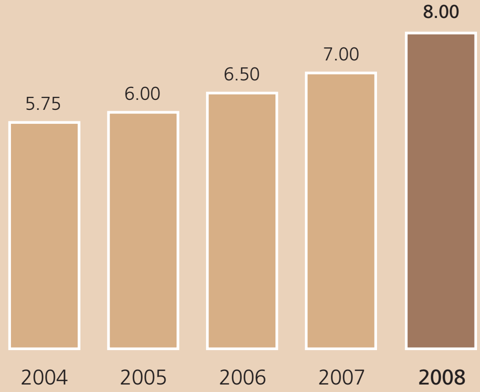


Diluted earnings per share (pence)

before amortisation and non-recurring items



Dividend per share (pence)



Chairman's Statement

David Hudd
Chairman

Overview

I am pleased to report that 2007/8 has been another good year for Falkland Islands Holdings ("FIH") with significant growth in underlying profits and earnings. We were particularly pleased to announce the acquisition of Momart International Limited ("Momart"), a UK market leader in fine art logistics in March 2008. The acquisition met our strategic objective of strengthening the Group's portfolio of market leading businesses. The acquisition, which was immediately earnings enhancing, brings increased scale and improves the Group's growth potential without compromising the financial position.

Our three businesses achieved solid organic growth during the period and the prospects for Falkland Oil and Gas ("FOGL") (in which FIH holds a 16.3% interest) were transformed by the introduction of BHPBilliton as a farm-in partner in October. These achievements have been received positively and this has contributed to the 53% increase in the FIH share price over the financial year.

Results

In the year to 31 March 2008, the Group's sales increased by 10.1% to £17.20 million from £15.62 million while underlying profit, defined as profit before tax, amortisation and non-recurring items was up by 17.6% to £1.94 million from £1.65 million. Profit after tax, but before amortisation and non-recurring items increased by 19.7% to £1.40 million from £1.17 million.

Operating profit before non-recurring items increased by 14.8% to £2,010,000 from £1,751,000 in 2006/7, of which Momart contributed £84,000 in the short period of ownership. Both the Falkland Islands Company ("FIC") and the Portsmouth Harbour Ferry Company ("PHFC") achieved improved results. In the Falklands auto sales, fishing agency, property income and shipping volumes were positive factors while other retailing profits declined. The ferry benefited from a 1% increase in passenger numbers.

Falkland Oil and Gas

The Group holds 15 million ordinary shares (16.3%) in FOGL which has a 49% interest in licences covering 49,000 sq km to the South and East of the Falklands. BHPBilliton has been the operator since 1 January 2008 and they have a licence commitment to drill two exploration wells. BHPBilliton have reimbursed FOGL with US$12.75 million in respect of prior costs and they will be funding 68% of costs through the drilling programme. The introduction of such an experienced Company underpins the exploration effort as we move closer to drilling, which is expected to take place in 2009.

Earnings and dividends

Earnings per share ("EPS") on underlying profits rose by 18.7% to 16.5p per share *(2007: 13.9p)* and diluted EPS calculated on all earnings after amortisation were 16.1p per share, compared with 18.8p per share last year, which included a profit on the sale of an investment.

The Board is recommending to shareholders a dividend of 8p per share, an increase of 14.2% on last year *(2007: 7p)*. The dividend is twice covered by earnings.

Net assets

The purchase of Momart for £10.3 million comprised cash (£4.6 million), contingent consideration payable in 2009 and 2010 (£3.2 million) and new FIH shares (£2.5 million). The consideration was financed from existing cash resources and a new term bank loan of £4.0 million. However, the Group remains in a strong financial position with good interest cover. At the year end, interest bearing obligations totalled £9.1 million and cash balances were £3.0 million.

The application of IFRS has meant that the investment in FOGL is now stated in the accounts at market value at the year end (123.5p) of £18.5 million *(2007: £12.9 million)* equivalent to 204p per FIH share.

Outlook

In the coming year we anticipate solid performances from our three businesses which should be relatively defensive to global economic difficulties. The new financial year has started in line with the Board's expectations and the Group is well positioned to make further progress during the year. We look forward to FOGL's future drilling campaign with keen anticipation since any success would have a transformational impact on the value of the investment and of your Company.

We thank our employees for their commitment and contributions to building the business, and we thank our shareholders for their support.

David Hudd
Chairman
26 June 2008

Managing Director's Business Review

John Foster
Managing Director

The year to 31 March 2008 was a year of progress and development for FIH. Our existing businesses performed well and increases in revenue and underlying profits were delivered by both FIC and by PHFC, our UK ferry business.

The results to 31 March 2008 also reflect a contribution from Momart which was acquired on 5 March 2008. Momart is a specialist provider of transport and logistics services to the art world and is a market leader in the UK with an international reputation for excellence.

This is the first year that the Group has been required to report its results under International Financial Reporting Standards (IFRS) and the financial statements, notes and prior year comparative figures have been shown under IFRS. The greatest impact arises in the balance sheet where the holding in FOGL is now shown at its market value. This has the effect of producing a significant increase in the Group's reported assets and reserves.

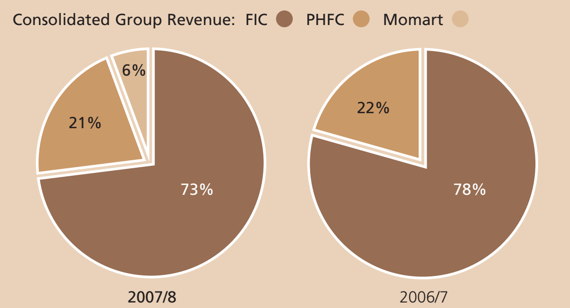
Group performance

Including nearly a month of post acquisition trading from Momart, the Group's revenues in the year to 31 March 2008 rose by 10.1% to £17.20 million *(2007: £15.62 million)*. On a like for like basis, revenue increased by 3.3%, as steady progress was delivered by FIC and PHFC in the year.

In the Falklands, FIC started well, helped by another very strong Illex squid catch in April and May, and first half activity was also boosted by visitors to the islands in May and June to commemorate the 25th anniversary of the liberation of the islands. Despite a generally sluggish local economy, FIC posted a strong second half with record automotive sales and buoyant 3rd party freight and carriage revenues, which helped to increase turnover in the Falklands business by 2.8% for the year. In the UK, PHFC's ferry business benefited from an increase in passengers, and revenues increased by 5.0% during the year. The revenue of £1.07 million generated by Momart in the 27 days following the acquisition reflected healthy trading and the continued buoyancy of the UK art market.

Revenue

Year ended 31 March	2008 £m	2007 £m	Change %
Falkland Islands	12.60	12.26	2.8
PHFC Ferry	3.53	3.36	5.0
	16.13	15.62	3.3
Momart	1.07	–	–
Total	17.20	15.62	10.1



Underlying profits

In the year to 31 March 2008, underlying profit, defined as profit before tax, amortisation and non-recurring items (PBTA), increased by 17.6% to £1.94 million *(2007: £1.65 million)*, reflecting increases at both PHFC and FIC and a first contribution from Momart. On a like for like basis underlying profit increased by 12.1% to £1.85 million.

In the current year reported profits have been largely unaffected by one off items or amortisation charges, whereas in 2006/7, profits before tax were increased by the sale of FIH's shares in Falkland Gold and Minerals Limited. To show the underlying position before non-recurring profits and the amortisation of intangible assets a separate column has been included on the face of the Consolidated Income Statement on page 22. An analysis of underlying profit is shown in the table below:

Underlying Profit

Year ended 31 March	2008 £m	2007 £m	*Change %*
Falkland Islands	1.24	1.09	*13.8*
PHFC Ferry	0.61	0.56	*8.9*
	1.85	1.65	*12.1*
Momart	0.09	–	–
Underlying profit (PBTA)	1.94	1.65	*17.6*
Amortisation	(0.03)	–	–
Exceptional costs	–	(0.11)	–
Profit on sale of investments	–	0.49	–
Profit before tax	1.91	2.03	*(5.9)*

Managing Director's Business Review

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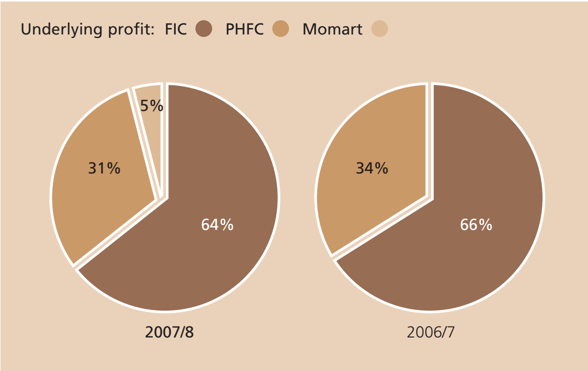


Amortisation

Under IFRS, the Group is required to amortise the intangible assets acquired upon the acquisition of Momart (see note 2 Acquisition of Subsidiary in the Notes to the Accounts on page 35) and in a full year the amortisation charge relating to these assets is expected to be approximately £400,000. The charge for the post acquisition period to 31 March 2008 amounted to £28,000. No amortisation charge is required in respect of goodwill, relating to Momart or to PHFC, since there had been no diminution of value in those assets during the year.

Non-recurring items

There were no non-recurring items in the current year. In 2006/7 the Group incurred costs of £105,000 to close the small defined benefit pension scheme in the Falklands and a profit of £485,000 was realised from the sale of the Group's holding in Falkland Gold and Minerals.

Profit before tax

After taking account of charges for the amortisation of intangibles of £28,000 the Group's profit before tax for the year ended 31 March 2008 was £1.91 million *(2007: £2.03 million)*.

Earnings per share

Earnings per share based on underlying profit before non recurring items and amortisation charges (PBTA) saw a healthy 18.7% increase in the year to 16.5 pence per share.

Year ended 31 March	2008 £m	2007 £m	*Change %*
Underlying profit (see page 3)	1.94	1.65	*17.6*
Tax thereon	(0.54)	(0.48)	–
Underlying profit after tax	1.40	1.17	*19.7*
Average number of shares in issue (000's)	8,478	8,417	–
Basic EPS	16.5p	13.9p	*18.7*

See note 11 on pages 43 and 44 for more details.

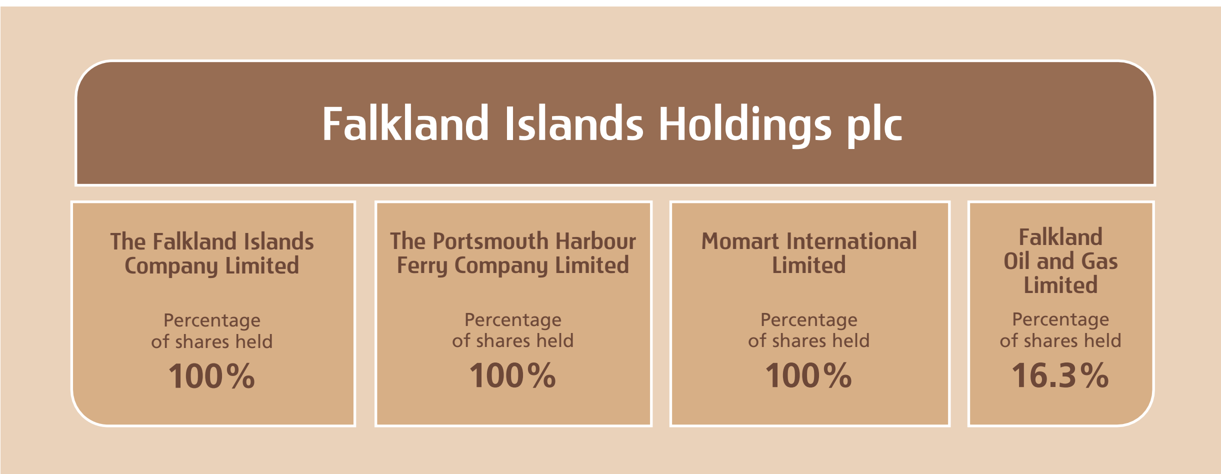
Group structure

Momart became a 100% owned subsidiary of FIH and this is reflected in the chart below. FIH's holdings in the Falkland Islands Company and the Portsmouth Harbour Ferry Company remained unchanged.

The Group also retained its strategic 16.3% shareholding in FOGL of 15 million shares. On 7 September 2007 these shares were transferred to Erebus Limited a wholly-owned subsidiary incorporated in the Falkland Islands.

Acquisition of Momart International Limited

On 5 March 2008, FIH completed the acquisition of Momart Limited and its parent company Momart International Limited. The total consideration payable, including transaction costs of £566,000, was £10.8 million comprising cash, shares in FIH, contingent consideration



Momart installed the Henry Moore exhibition at Kew in summer 2007.

payable over two years, linked to the continuing employment of the Directors of Momart, and a small sum paid on a deferred basis linked to the value of certain art works to be sold by Momart.

	£m
Cash sum paid to vendors	4.6
Professional fees	0.6
Ordinary shares in FIH	2.5
Contingent consideration	3.0
Deferred consideration	0.1
Total consideration	**10.8**

The consideration paid represented a multiple of 7.9 times the reported PBTA of Momart for the year ended 31 August 2007.

582,666 FIH shares were issued in respect of the acquisition representing 6.8% of the issued share capital prior to the transaction.

At the time of the acquisition, Momart had identifiable net tangible operating assets of £1.3 million and bank borrowings of £1.6 million. In addition, the Group also acquired intangible assets of £4.8 million and related deferred tax liabilities of £1.3 million. Goodwill on acquisition amounted to £7.6 million.

	£m
Consideration payable	10.8
Net tangible assets on acquisition	1.3
Existing bank borrowings	(1.6)
Intangible assets (trade name, etc.)	4.8
Deferred tax linked to intangibles	(1.3)
	3.2
Goodwill on acquisition	7.6

Momart is a leading provider of specialist transport, storage logistics and consultancy services for the art market. The Company has been established for some 35 years and has administration offices in Whitechapel and a secure storage facility of 78,000 square feet in Leyton, East London. Momart has 112 employees and in the year to 31 August 2007 reported revenue of £12.3 million and PBTA of £1.4 million.

Momart enjoys an enviable reputation for its professionalism and specialist expertise amongst its blue chip client base, which includes many of the world's leading museums and art galleries (including, the British Museum, The Victoria and Albert Museum, Tate, and the Royal Collection. Overseas Momart's clients include the Metropolitan Museum of New York, The J. Paul Getty Museum Los Angeles, and the Hermitage St. Petersburg).

Managing Director's Business Review

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Services to public galleries and museums accounted for approximately 56% of Momart's revenues in 2007. In addition to its public sector clients, Momart provides specialist storage and transportation services for many of the UK's leading commercial art galleries and collectors. Services to private galleries accounted for approximately 34% of Momart's revenues in 2007. Storage rental income represented 10% of revenue.

In recent years Momart has enjoyed strong growth in both revenue and profit, with the continued expansion of the global art market further growth is expected over the medium term.

Portsmouth Harbour Ferry Company

PHFC performed well in the second half of the year, building on the solid performance reported in the Interim results. The core passenger ferry service continued to account for more than 90% of revenue. Whilst the encouraging increase in passenger numbers seen in the first half of the year slowed a little in the second half, for the year as a whole the total number of passengers carried by the ferry increased by 1% to 3.66 million. PHFC also continued to provide water taxi services for Berkeley Homes, with a small 72 passenger vessel operating at peak times during weekdays taking residents from Royal Clarence Yard on the Gosport shore to our pontoon at Portsea.

PHFC also enjoyed success with a smaller, more focussed programme of summer leisure cruises in Portsmouth harbour and along the Solent, and this made a small positive contribution for the first time in several years. A similarly focussed programme is scheduled for this Summer.

As in the prior year fares were increased on 1 June 2007, with normal daily adult return fares rising by 5% to £2.10 and fares for regular users buying open 10 trip tickets increasing from £8.00 to £8.40. In addition, the Company continued to offer concessionary fares to children and seniors over 60.

With the 1% increase in passengers and fare rises in June, partially offset by the elimination of loss making cruises, total revenue from PHFC increased by 5% to £3.53 million.

2007/8 saw continued cost inflation with particularly large increases in the price of fuel, but efficiency improvements and active cost management mitigated their impact. As a result, after the allocation of head office costs, the profit before tax of the ferry operations increased from £0.55 million to £0.61 million in the year to 31 March 2008.

The ferry currently benefits from the free use of the pontoon on the Gosport side of the harbour which is owned by Gosport Borough Council. The Council are moving ahead with plans to replace the existing pontoon

The Spirit of Portsmouth *departing Portsea.*

which is now expected to be delivered in late-2009. It now seems clear that the Council will seek to finance the cost of the pontoon by charging a full commercial rent for its use. With installation of the new pontoon now delayed into late-2009 these additional pontoon rental costs will not affect the current financial year. However, the Group will be required to implement significant increases to fares to offset these additional operating costs next year.

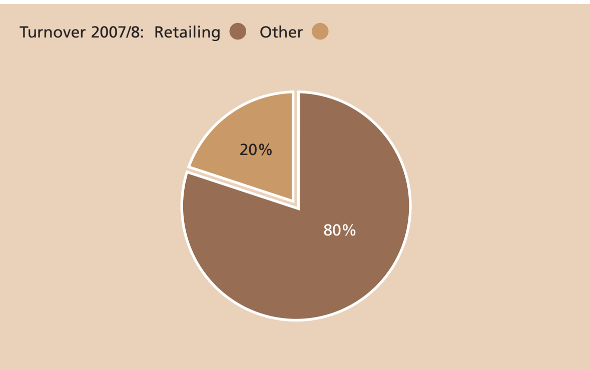
The ferry service continues to be popular with local residents and this was confirmed during the year by a customer satisfaction survey which revealed that 89% of passengers felt the service was good or very good. The key to this high level of passenger satisfaction is the ferry's exceptional reliability and in 2007/8 over 99.6% of all 72,000 ferry trips departed on time. The value placed on PHFC's operations by the people of Gosport and Portsmouth was also emphasised when the Company was awarded the prestigious "Service to the Community" award at the "Go Gosport" awards ceremony in December 2007. This award was a welcome recognition of PHFC's unique contribution to the local community which it serves and underlines the value local people place on a service which is:

- safe;
- reliable;
- quicker;
- cheaper; and
- more environmentally friendly than using a car.

With spiralling costs of petrol, and increased awareness of green issues, the excellent value for money, combined with the convenience of the shorter harbour crossing, mean that the Gosport Ferry remains an attractive and compelling choice for local commuters and tourists.

Falklands operations (FIC)

Total revenue in the Group's Falklands businesses in the year to 31 March 2008 increased by 2.8% to £12.60 million *(2007: £12.26 million)*.



The economy of the Falkland Islands is not directly linked to the business cycle in the UK, but is subject to the same increases in raw material prices, food and energy costs. In particular oil, which despite the recent introduction of a small farm of wind turbines, continues to form the basis for almost all the Islands' electricity generation, saw sharp price rises in the year and these increases were more acutely felt by consumers without the dampening effect of the high government duty seen in the UK. In general terms, economic activity in the Falklands remained largely flat in the year, constrained by rising costs and restricted government spending. Retailing remained competitive and margins, particularly in the West Store supermarket, came under renewed pressure. However, continued growth in the numbers of cruise ship visitors provided an important stimulus to the Group's Capstan gift shop. Automotive sales were buoyant with continuing strong military orders supported by increased sales of newly introduced budget 4x4's. In addition the Company's freight business, Darwin Shipping, benefited from exceptional volumes of third party cargoes being shipped to the Islands during the year.

After allocating head office costs, the Group's Falklands business activities, generated a profit before tax and non-recurring items of £1.24 million, an increase of £0.15 million on the prior year *(2007: £1.09 million)*.

Retailing – Sales £10.0 million
(2007: £9.8 million)

Retailing is the most important business activity undertaken by the Group in the Falklands and accounts for 80% of revenue.

Despite increased competition and a generally flat local economy in the year to 31 March 2008, overall retail sales increased by 1.9% to £10.0 million.

Helped by a reorganisation of management responsibilities and improvements in store layout, sales at the flagship West Store supermarket increased by 1.2%. However, competition from local independent retailers remained fierce and this put pressure on margins during the year. At the Capstan gift shop a refreshed product line up and continued increases in tourist activity, particularly of cruise ship passengers, saw sales increase by 10.2%. During the year the Company's Gallery clothing store was closed for refurbishment and re-opened in September 2007 re-branded as "Basics". With a simplified offer of clothing staples, customer reaction was positive and both sales and margins at the renamed "Basics" store improved in the second half.

The Group's DIY business, Homecare, was also re-branded during the year and its two constituent parts, selling

Managing Director's Business Review
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building materials and home furnishings and accessories were split off into separate trading areas and renamed "Home Builder" and "Home Living". The refurbishment was completed in December 2007 and the new outlets re-opened in time for Christmas. Customer reaction was positive and again sales increased in aggregate by 9.7% for the year to 31 March 2008, reversing the trend of decline seen in the prior year.

FIC's automotive dealership had another excellent year with record numbers of vehicle sales (95 compared to 84 in the previous year). Increased sales of the newly introduced budget Ford 4x4 models complemented the Company's more traditional Land Rover sales, targeted at local businesses and the military, which still form the bedrock of the auto section's activities.

Other activities – Sales £2.6 million (2007: £2.4 million)
Overall sales in the Company's other activities increased by £0.2 million to £2.6 million in the year to 31 March 2008.

The Fishing Agency had a good year with revenues and net income marginally ahead of 2006/7 thanks to another strong performance from the Illex squid fishery.

Revenues from FIC's insurance agency and property rental activities saw steady growth in the year, and with lower property maintenance costs in 2007/8 the contribution from FIC's property arm increased significantly. At the year end, FIC had a portfolio of 28 commercial and residential properties, all of which are let. Port Services which provides stevedoring services also increased its contribution in 2007/8.

Darwin Shipping, which charters space on UK Ministry of Defence supply vessels, benefited from exceptional levels of third party cargos during the year, most notably its carriage of three 44 metre wind turbines for the newly installed wind farm on the outskirts of Stanley, which will help reduce the Islands' reliance on expensive fossil fuels. Despite an increase in MoD shipping rates in November 2007, a strong increase in volumes of third party freight and a continued tight control on costs, enabled Darwin to make a welcome advance in the year.

The Upland Goose Hotel benefited from the "Falklands 25" visitors in the first quarter, but in the remainder of the year, as expected, demand for beds fell away and occupancy levels dropped, resulting in increased losses for the year as a whole. After a careful review of the prospects for the

Wind turbines in the Falklands – the turbines were transported by Darwin Shipping.

Goose it was decided to close the hotel at the end of March 2008 and convert the building back into its original use as residential accommodation. Planning permission for eleven residential units has been granted and work commenced on the conversion in April 2008. The project will capitalise on the site's excellent sea front location in the centre of Stanley, and produce prestigious premium priced heritage cottages and apartments, available for sale or letting in 2009.

During the year the Company was also granted planning permission to build up to 350 residential units at its 37 acre site at Dairy Paddock, on the Southwest edge of central Stanley, part of which was received in exchange for FIC's Racecourse site. Discussions are progressing with a UK house builder, Galliford Try plc, and the Falkland Islands Government to assess the potential for the profitable phased development of this site. If successful, this would see a substantial increase in the size and the quality of the housing stock in Stanley, and would provide a significant boost to the value of FIC's property portfolio.

Trading outlook for 2008/9

With the acquisition of Momart, the overall profitability of the Group is set to increase significantly in the current financial year as the Group benefits from a full year's contribution. Although the general economic outlook in the UK is more uncertain than for some time, both Momart and PHFC have seen a solid start to the new financial year, with both companies seeing year on year increases in revenue in the first two months. In the Falklands, the first quarter has experienced a slower start, with a fall in the squid catch in April and May and a corresponding reduction in the income generated by the Fishing Agency. In addition, the first two months of 2007/8 benefited from the 25th anniversary commemorations, and as a result in comparison FIC has not enjoyed as strong a start this year.

The outlook for the remainder of the year remains positive, and although it is unlikely that FIC will match the exceptional level of profitability seen in 2007/8, a solid contribution from Stanley is anticipated. In the UK further strengthening of the central management function will take place following the near doubling in size of the Group brought on by the recent acquisition. In the UK operating companies both PHFC and Momart are expected to make further progress.

Falkland Oil and Gas (FOGL)

The Group continues to hold its strategic stake in FOGL of 15 million shares which represents a 16.3% interest. At 31 March 2008 the bid price of FOGL shares was 123p giving a market value for FIH's shareholding of £18.5 million *(2007: £12.9 million)*. The investment has a cost value to the Group of £2.5 million.

In the year the exploration programme continued with expenditure of £11 million in FOGL's calendar year. The major components were the Controlled Source Electromagnetic (CSEM) Survey and the 2D infill survey.

The 2D survey, which was completed in May 2007, was designed to infill the existing seismic grid in order to get clearer definition of the leads and prospects and covered 9,950 km.

In August 2007 the CSEM survey of 750 km was completed covering twelve prospects. FOGL reported that positive anomalies were detected over seven of the prospects, which also showed seismically derived direct hydrocarbon indicators. The largest of these prospects could contain, on a mean un-risked basis, up to 3.5 billion barrels. The results of the CSEM survey were then integrated with the 2D results to help define the best prospects for drilling.

One of the key objectives for FOGL was to secure a credible farm-in partner and in October 2007 it was announced that a farm-in had been agreed with BHPBilliton and that transaction was completed in December. BHPBilliton acquired a 51% interest in the entire licence area and assumed the operatorship. The financial terms of the farm-in were that FOGL received US$12.75 million in reimbursement of historic costs and that BHPBilliton will pay 68% of exploration costs up to, and including, the drilling of two exploration wells. Their participation provides external corroboration of the prospectivity of the licence area.

Final preparatory work prior to drilling, comprising site surveys and environmental impact assessment is expected to take place in the Austral Summer of 2008/9 with drilling in 2009.

The positive news flow led to FOGL's share price increasing by 42% over the financial year from 86.5p to 123p.

Managing Director's Business Review

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Balance sheet

As a result of the introduction of IFRS and the acquisition of Momart the consolidated balance sheet has undergone considerable change. The net effect of these changes is that the Group has seen an increase in its reported net assets from £24.7 million to £34.0 million as at 31 March 2008 and the Group ended the year with net bank borrowings of £6.1 million *(2007: £2.2 million net cash)*.

Intangible assets at 31 March 2008 of £16.4 million *(2007: £4.0 million)* include intangible assets and goodwill of £12.4 million linked to the acquisition of Momart and £4.0 million related to goodwill on the acquisition of PHFC in December 2004.

The £4.8 million of other intangible assets relate to those assets with a specifically identifiable commercial value to the Company.

The net book value of property, plant and equipment increased by £1.1 million from £6.3 million to £7.4 million to 31 March 2008. During the year fixed asset additions of £0.9 million were made to improve the infrastructure of the operating companies, principally in the Falkland Islands, and a further £0.7 million of tangible assets (mainly vehicles and plant and equipment) were acquired with the purchase of Momart in March 2008. The depreciation charge for the year amounted to £0.5 million.

The Group's investment properties comprise commercial and residential properties in the Falkland Islands held for rental. The net book value was essentially unchanged in the year at £1.6 million *(2007: £1.6 million)*. The Directors estimate that the fair value of this property portfolio at 31 March 2008 was £2.8 million.

Under IFRS, deferred tax assets relating to future pension liabilities are classified separately and unlike UK GAAP are not netted off the gross pension liability. As at 31 March 2008 the Group's deferred tax assets fell from £0.6 million to £0.5 million largely as a result of the reduction of UK corporation tax from 30% to 28%.

Inventories increased from £2.7 million to £3.3 million at 31 March 2008. £162,000 of this relates to work in progress at Momart and the balance of £3.1 million represented stock held for resale in the Group's retail operations in the Falklands. Over £0.3 million of the £0.5 million increase in stock levels in the Falklands related to higher levels of vehicle stocks which rose to £0.7 million at the year end. These increases were in response to higher levels of customer demand, particularly for budget 4x4 models. Levels of retail inventories were also deliberately increased by some 5% to increase buffer stocks and avoid stock outs and lost sales.

Trade and other receivables balances increased from £2.4 million in March 2007 to over £5.3 million as at 31 March 2008. The increase relates largely to the acquisition of trade debtors in Momart with balances due from museums and galleries and overseas agents. The Company has a good history of receivables collection and many of its overseas agency customers have amounts payable to them in trade creditors, which offset the receivable due to Momart. In addition, many of the museums and institutions owing monies have long standing relationships with Momart and have assets held in storage on their behalf at Momart's warehouse in Leyton. Approximately £1.7 million of trade receivables was due in the Falkland Islands *(2007: £2.4 million)* mainly relating to fishing companies.

Despite the payment of £5.2 million in consideration for Momart the Group retained healthy cash balances of £3.0 million at 31 March 2008 *(2007: £5.0 million)*.

As part of the acquisition of Momart, the Group drew down an additional £4.0 million of bank borrowings in the form of a term loan repayable over seven years with an initial two-year repayment holiday. In addition, a further £3.0 million is due to the Momart vendors in contingent consideration, which will be payable over the next two years. At 31 March 2008 the Group's total interest bearing loans and borrowings amounted to £9.1 million *(2007: £2.7 million)*, representing the £7.0 million linked to the purchase of Momart and a further £2.1 million of residual bank borrowings that pre-dated the acquisition.

Income tax payable of £1.36 million *(2007: £0.57 million)* relates to corporation tax due within the next 12 months.

At the year end the Group hedged its interest rate exposure by taking out a structured collar to cap against adverse movements in interest rates (see note 24 for details). Under IFRS these instruments are included in the balance sheet at fair value, which as at 31 March 2008 represented a liability of £72,000 *(2007: £1,000)*.

Trade and other payables increased significantly from £4.2 million to £7.6 million as a result of the acquisition of Momart, but as in prior years also include extended credit arrangements with long standing suppliers connected to the Group's Falklands business.

As at 31 March 2008 the liability due in respect of the Group's defined benefit pension schemes had reduced from £2.5 million as at 31 March 2007 to £2.1 million, principally due to an increase in long term bond rates from 5.4% to 6.6%, which in turn has led to a reduction in the discounted net present value of the schemes' liabilities (see note 26 on pages 53 to 57).

Deferred tax liabilities increased from £0.8 million as at 31 March 2007 to £2.1 million as at 31 March 2008. £1.3 million of this increase was attributable to the tax amortisation benefit created by the acquisition of £4.8 million of intangible assets stemming from the purchase of Momart. The benefit of the effect of the reduction in the rate of UK corporation tax from 30% to 28% as from 1 April 2008 has been offset by an increase in provisions in respect of other timing differences (see note 19 on pages 49 to 51).

As at 31 March 2008 the net assets of the FIH Group under IFRS had increased to £34.0 million *(2007: £24.7 million)*. The uplift of £9.3 million is analysed in detail in note 28 to the financial statements but can be summarised as follows:

	£m
Profit for the year	1.4
Dividend paid	(0.6)
Issue of shares	2.5
Increase in fair value of FOGL	5.5
Actuarial gain on pension schemes	0.3
Other	0.2
Total increase in shareholders' funds	9.3

Net assets per share were 375 pence per share at 31 March 2008 *(2007: 292 pence per share)*.

Cash flow

Cash flow from operating activities

The Group experienced a strong positive cash flow in the year to March 2008, with net cash flow from operating activities increasing to over £2.9 million compared to the £2.0 million generated in 2006/7. This reflected the increase in the Group's underlying profitability and the management of working capital.

The operating cash flow can be summarised as follows:

Year ended 31 March	2008 £'000	2007 £'000
PBT as reported	1,909	2,034
Add:		
Depreciation	534	468
Amortisation	28	–
Net interest expense	101	97
Share-based payments expense	142	101
Gain on sale of FGML	–	(485)
EBITDA	2,714	2,215
Add decrease in working capital	671	92
Other	54	(4)
Less tax paid	(460)	(338)
Net cash flow from operating activities	2,979	1,965

Cash flow from investing and financing activities

During the year a cash dividend of £591,000 was paid, which equates to 7p per share *(2007: 6.5p)*. Capital expenditure amounted to £907,000 *(2007: £282,000)*. The major items were the renovation of retail outlets and the construction of residential properties to let in the Falklands. The Company enjoyed net bank interest received of £40,000 in the year as its liquidity position remained strong *(2007: £31,000 paid)*. With the continued strengthening of its liquidity position, surplus cash resources were placed on deposit.

During the year the Group paid the final £43,000 instalment on the loan notes issued in connection with the acquisition of PHFC in December 2004 and made scheduled repayments of bank loans of £0.74 million. After drawing down additional bank loans of £4.0 million (net £3.8 million) to help finance the cash costs of acquisition of Momart of £5.3 million, the £1.4 million of bank debt extant in Momart at the time of the acquisition was repaid. After taking into account all of the cash flows linked to the Group's financing and investing activities, the net cash flow for the year amounted to an outflow of £2.0 million *(2007: Inflow of £1.4 million)* and the Group ended the year with cash balances reduced to £3.0 million from £5.0 million at 31 March 2007 and net debt of £6.1 million *(2007: £2.2 million cash)*.

Managing Director's Business Review

CONTINUED

Year ended 31 March	2008 £'000	2007 £'000
Net cash flow from operating activities	**2,979**	1,965
Less:		
Dividends paid	**(591)**	(545)
Capital expenditure	**(919)**	(282)
Net bank interest	**40**	(31)
Scheduled loan repayments	**(498)**	(532)
Repayment of loan notes	**(43)**	(43)
Repayment of Momart loan	**(1,395)**	–
Drawn down of loan	**3,841**	–
Acquisition of Momart	**(5,343)**	–
Sale of FGML	**–**	675
Other	**(35)**	151
Net cash flow	**(1,964)**	1,358
Cash balance b/fwd	**4,959**	3,601
Cash balance c/fwd	**2,995**	4,959

Business drivers, risk factors and key performance indicators

Business drivers

All the Group's businesses are consumer oriented operations and their success is linked to the general economic conditions in their markets. Inflation, employment levels, interest rates and government spending programmes all have an effect on disposable income and consumer confidence. The Group's businesses in the Falklands and Gosport have strong ties to the local communities they serve and activity is linked in turn to the local demand for their goods and services. In addition demand in these local markets is boosted by wider tourist activity and both locations have benefited from increasing tourist numbers in recent years. In the Falklands the strength of the local economy is closely linked to the fortunes of the fishing industry and in particular the success of the more variable Illex squid season which runs from February to May. In the future the outcome of the oil exploration programme is likely to have a major impact on the Falklands economy.

At Momart, general economic factors are also important but in addition there is an increasing trend for the out-sourcing of specialist services by museums and institutions. At a wider level the use of art works as cultural ambassadors and as revenue generating assets has led to a steady increase in the number and frequency of major travelling international exhibitions. In addition, the art market itself is being significantly expanded by the emergence of new buyers, patrons and artists in the rapidly developing economies of the Middle and Far East and Russia.

Risk factors

The FIC and PHFC businesses are both sensitive to local conditions and as well as changes in local economic conditions. The level of local competition also affects their performance. In the Falklands FIC faces local competition in almost every area of its operations, but due to the Company's long established position and accumulated expertise, in most sectors FIC has the largest market share. The situation is fluid and maintaining leadership depends on continued innovation, investment and a commitment to excellence in customer service.

For the ferry operations in Portsmouth the situation is different. Although there is no other directly competing ferry operator, customers do have a choice and are able to travel by car or public transport round the harbour. Maintaining and promoting the relative attractions of using the ferry whether for commuting to work, shopping or for tourism is a key focus of our strategy and PHFC will continue to work closely with local authorities and other public transport providers to reinforce its position as a faster, more cost effective, and environmentally friendly alternative to travelling by car.

For Momart the physical security of artworks is of paramount importance and the Company goes to great lengths to guard against the risk of theft or damage to the priceless works in its care. Beyond physical security and the related risk to the Company's reputation, the risks faced by Momart are less local in nature and include any global factors impacting continued growth of the global art market. In particular those factors which could result in a contraction of personal or institutional budgets which could then lead to a reduction in the movement and display of art. The emergence of new competitors could also impact the business adversely.

Key performance indicators

At a Group level management attention is focussed on revenue, costs and the contribution generated by each sub-group of businesses. In the Falklands businesses like for like revenue growth is a key measure of performance, especially for the retail outlets which account for 80% of sales. In addition to sales trends gross margins by product and general costs are also kept under close review.

At PHFC, passenger numbers and the average fare yield are monitored on a weekly basis, and other key concerns are ferry reliability and passenger safety as well as a focus on costs and net profitability.

In Momart forward sales projections are monitored and updated and these are an important leading indicator, which facilitates forward planning. In addition order intake and the conversion rate in bidding for contracts are reviewed on a regular basis. Direct costs and the gross contribution of individual contracts are monitored closely, as are the level of indirect costs and the overall overtime being worked.

Impact of adopting International Financial Reporting Standards

As an AIM-quoted company Falkland Islands Holdings plc is now required to report under International Financial Reporting Standards ("IFRS") as adopted by the EU.

The new accounting policies adopted are set out in note 1 to the accounts.

John Foster
Managing Director
26 June 2008

Board of Directors and Secretary

David Hudd (63) Chairman

David joined the Board on 4 March 2002 and is Chairman of the Nominations Committee. He is a Chartered Accountant and was a partner in Price Waterhouse until 1982. Since then, he has been Chairman or Chief Executive of a number of listed companies. He was, until April 1998, Executive Chairman of Vardon plc (now Cannons Group Limited), a Company he founded. He is currently non-executive Deputy Chairman of both Falklands Oil and Gas Limited and Falkland Gold and Minerals Limited.

John Foster (50) Managing Director

John joined the Board on 26 January 2005. He is a Chartered Accountant and previously served as Group Finance Director for Macro 4 plc between 2000 and 2003, and Hamleys plc between 1998 and 2000. Prior to joining Hamleys, he spent three years as Corporate Finance Director of Ascot plc and before that worked for nine years as a venture capitalist with a leading investment bank in the City.

Leonard Licht (63) Non-executive Director

Leonard was appointed to the Board on 8 December 1999. He was a founding Director and Vice Chairman of Mercury Asset Management Group PLC from 1987 to 1992 and Deputy Chairman of Jupiter Asset Management PLC from 1992 to his retirement from fund management in 1996. He is a partner and former Chairman of Hg Capital LLP. He is a member of the Company's Nominations, Remuneration and Audit Committees and is the senior independent non-executive Director.

Sir Harry Solomon (71) Non-executive Director

Sir Harry was appointed to the Board on 8 December 1999. He qualified as a solicitor in 1960 and entered private practice. He was joint founder and Chief Executive Officer of Hillsdown Holdings plc and subsequently became Chairman, resigning in 1992. He is currently a Director of a number of companies both private and public. He is a member of the Company's Nominations and Audit Committees and a member and Chairman of the Remuneration Committee.

Mike Killingley (57) Non-executive Director

Mike was appointed to the Board on 26 July 2005, having previously been appointed non-executive Chairman of the Portsmouth Harbour Ferry Company Limited, following the Company's successful bid. He is a Chartered Accountant and was a partner of KPMG (and predecessor firms) from 1984 to 1998. He is currently non-executive Chairman of Beale plc, a listed Company. He was previously non-executive Chairman of Southern Vectis plc and Conder Environmental plc, both listed on AIM. He is Chairman of the Audit Committee and a member of the Remuneration Committee.

James Ivins (43) Company Secretary

James joined the Group as Company Secretary on 26 February 2007. He is a Fellow of the Chartered Association of Certified Accountants. James commenced his career in the City of London and has over a decade of international business experience with public and private companies.

Directors' Report

The Directors present their annual report and the financial statements for the Company and for the Group for the year ended 31 March 2008.

Results and dividend

The Group's result for the year is set out in the Group Income Statement on page 22. Group profit for the year after taxation amounted to £1,378,000 *(2007: £1,585,000)*. Basic earnings per share were 16.3p *(2007: 18.8p)*. The Directors recommend a dividend of 8.0p per share *(2007: 7.0p)* which, if approved by shareholders at the forthcoming Annual General Meeting will be paid on 31 October 2008 to shareholders on the register at close of business on 3 October 2008. This has not been included in creditors as it was not approved before the year end. Dividends paid during the year comprise a dividend of 7.0p per share in respect of the previous year ended 31 March 2007.

Principal activities and business review

The business of the Group during the year ended 31 March 2008 was general trading in the Falkland Islands, the operation of a ferry across Portsmouth Harbour and, from 5 March 2008, the provision of international arts logistics and storage services. The principal activities of the Group are discussed in more detail in the Business Review on pages 3 to 13 and should be considered as part of the Directors' Report for the purposes of the requirements of the enhanced Directors' Report guidance.

The principal activity of the Company is that of a holding company.

Directors' interests

The interests of the Directors in the issued shares and share options over the shares of the Company are set out below under the heading 'Directors' interests in shares' on pages 17 and 18. During the year no Director had an interest in any significant contract relating to the business of the Company or its subsidiaries other than his own service contract.

Health and safety

The Group is committed to the health, safety and welfare of its employees and third parties who may be affected by the Group's operations. The focus of the Group's effort is to prevent accidents and incidents occurring by identifying risks and employing appropriate control strategies. This is supplemented by a policy of investigating and recording all incidents.

Employees

The Board is aware of the importance of good relationships and communication with employees. Where appropriate, employees are consulted about matters which affect the progress of the Group and which are of interest and concern to them as employees. Within this framework, emphasis is placed on developing greater awareness of the financial and economic factors which affect the performance of the Group. Employment policy and practices in the Group are based on non-discrimination and equal opportunity irrespective of age, race, religion, sex, colour and marital status. In particular, the Group recognises its responsibilities towards disabled persons and does not discriminate against them in terms of job offers, training or career development and prospects. If an existing employee were to become disabled during the course of employment, every practical effort would be made to retain the employee's services with whatever retraining is appropriate. The Group's pension arrangements for employees are summarised in note 26 on pages 53 to 57.

Share capital and substantial interests in shares

During the year 35,000 share options were exercised. There have been no changes to the authorised share capital which remains 12,500,000 shares.

Further information about the Company's share capital is given in note 28 on pages 60 to 62. Details of the Company's executive share option scheme and employee ownership plan can be found on pages 17 and 18 and in note 27 on pages 58 and 59.

The Company has been notified of the following substantial interests in the issued ordinary shares of the Company as at 31 March 2008.

Directors' Report

CONTINUED

Substantial shareholdings

	Number of shares	Percentage of issued shares
Artemis Investment Management	1,082,887	11.95
L S Licht	795,000	8.77
Sir Harry Solomon	433,677	4.79
Dolphin Fund plc	408,872	4.51
Jupiter Asset Management	368,713	4.07

Payments to suppliers

The policy of the Company and each of its trading subsidiaries, in relation to all its suppliers, is to settle the terms of payment when agreeing the terms of the transaction and to abide by those terms, provided that it is satisfied that the supplier has provided the goods or services in accordance with agreed terms and conditions. The Group does not follow any code or standard payment practice. As a holding company, the Company had no trade creditors at either 31 March 2008 or 31 March 2007.

Charitable and political donations

Charitable donations made by the Group during the year amounted to £24,160 (*2007: £16,431*), largely to local community charities in Gosport and the Falkland Islands. Donations in the UK included £7,000 to the Falkands Veterans Association. In the Falkland Islands donations amounted to £9,160, of which the largest was £5,000 to the Falkland Islands Overseas Games Association. There were no political donations.

Disclosure of information to auditors

The Directors who held office at the date of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

A resolution proposing the re-appointment of KPMG Audit plc will be put to shareholders at the Annual General Meeting.

Annual General Meeting

The Company's Annual General Meeting will be held at the London offices of Financial Dynamics, Holborn Gate, 26 Southampton Buildings, WC2A 1PB at 2.30pm on 10 September 2008. The Notice of the Annual General Meeting and a description of the special business to be put to the meeting are considered in a separate Circular to Shareholders which accompanies this document.

Details of Directors' remuneration and emoluments

The remuneration of non-executive Directors consists only of annual fees for their services both as members of the Board and of Committees on which they serve.

An analysis of the remuneration and taxable benefits in kind (excluding share options) provided for and received by each Director during the year to 31 March 2008 and in the preceding year follows:

	Salary £'000	Bonuses £'000	Benefits £'000	Pensions £'000	Gains in respect of share options £'000	2008 Total £'000	2007 Total £'000
David Hudd	100	34	–	–	–	134	129
John Foster	145	68	–	25	–	238	216
Mike Killingley	25	–	–	–	–	25	25
Leonard Licht	20	–	–	–	–	20	20
Sir Harry Solomon	20	–	–	–	–	20	20
	310	102	–	25	–	437	410

Directors' interests in shares

As at 31 March 2008, the share options of executive Directors may be summarised as follows:

Share options	Date of grant	Number of shares D L Hudd	Number of shares J L Foster	Exercise price	Exercisable from	Expiry date
Opening balance						
	15 Aug 2002	81,300	–	£1.845	15 Aug 2005	14 Aug 2012
	10 Feb 2005	–	57,692	£5.200	10 Feb 2008	9 Feb 2015
	14 June 2005	49,411	14,117	£4.250	14 June 2008	13 June 2015
	13 July 2006	59,843	28,346	£3.175	13 July 2009	12 July 2016
As at 1 April 2007		**190,554**	**100,155**			
Exercised in the year			–	–		
Granted in the year	7 Aug 2007	–	27,517	£3.300	7 Aug 2010	7 Aug 2017
Total As at 31 March 2008		**190,554**	**127,672**			

The mid-market price of the Company's shares on 31 March 2008 was 370 pence and the range in the year was 240 pence to 437½ pence.

The Directors' options extant at 31 March 2008 totalled 318,226 and represented 3.5% of the Company's issued share capital.

Directors' Report

CONTINUED

Under the Company's executive share option scheme, executive Directors and senior executives have been granted options to acquire ordinary shares in the Company after a period of three years from the date of the grant. All outstanding options have been granted at an option price of not less than market value at the date of the grant. Unless some other performance condition is imposed at the time of grant, the exercise of options is conditional upon the growth in earnings per share over a period of three consecutive financial years, (starting no earlier than the year in which the option is granted), being greater than the increase in the retail price index over that period plus 6%.

During April 2008, the Remuneration Committee undertook a review of the performance conditions attached to the options granted to Mr Foster in February 2005 and to Mr Foster and Mr Hudd in June 2005. As stated in last year's Directors' Report, the condition attached to these options required that compound growth ("CAGR") in the share price of the Company should be at least 10% over the three years from the date of grant. The Remuneration Committee review concluded that the performance of the Company's share price over the three years following the dates of grant had been unduly influenced by events concerning Falkland Oil and Gas Plc, in which the Company has a substantial shareholding. As a consequence, the Remuneration Committee concluded that the performance conditions attached to these options would not, without alteration, achieve their intended purpose of providing appropriate incentivisation to Mr Foster and Mr Hudd. The Remuneration Committee, which comprises the three non-executive Directors of the Company, therefore recommended to the Board that, in view of the growth in underlying earnings per share of 83% achieved in the three years from 1 April 2005 to 31 March 2008 the performance condition applied to the options granted to Mr Foster on 10 February 2005 over 57,692 shares at £5.20 and on 14 June 2005 over 14,117 shares to Mr Foster and over 49,411 shares to Mr Hudd at £4.25 should be regarded as satisfied and that these options should be regarded as vested.

These recommendations have been adopted by the full Board (with the exception of the Directors affected) and the terms of these options have therefore been amended as stated above.

In addition to the share options set out above, the interests of the Directors, their immediate families and related trusts in the shares of the Company according to the register kept pursuant to the Companies Act 2005 were as shown below:

	Ordinary shares as at 31 March 2008	Ordinary shares as at 31 March 2007
David Hudd	**56,000**	45,400
John Foster	**10,000**	5,000
Mike Killingley	**10,000**	3,000
Leonard Licht	**795,000**	791,250
Sir Harry Solomon	**433,677**	430,027

Statement of Directors' responsibilities in respect of the Directors' Report and financial statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable laws and have elected to prepare the Parent Company financial statements on the same basis.

The Group and Parent Company financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position of the Group and the Parent Company and the performance for that period; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

In preparing each of the Group and Parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent Company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

James Ivins
Secretary
26 June 2008

Kenburgh Court
133-137 South Street
Bishop's Stortford
Hertfordshire
CM23 3HX

Independent Auditor's Report to the members of Falkland Island Holdings plc

We have audited the Group and Parent Company financial statements (the "financial statements") of Falkland Island Holdings plc for the year ended 31 March 2008 which comprise the Group Income Statement, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements, the Group and Parent Company Statements of Recognised Income and Expense and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the EU are set out in the Statement of Directors' Responsibilities on pages 18 and 19.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Managing Director's Business Review that is cross referred from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 31 March 2008 and of its profit for the year then ended;
- the Parent Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU as applied in accordance with the provisions of the Companies Act 1985, of the state of the Parent Company's affairs as at 31 March 2008;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit PLC
Chartered Accountants
Registered Auditor
26 June 2008
Nottingham

Consolidated Income Statement

FOR THE YEAR ENDED 31 MARCH 2008

Notes		Before amortisation & non-recurring items 2008 £'000	Amortisation & non-recurring items (note 6) 2008 £'000	Total 2008 £'000	Before amortisation & non-recurring items 2007 £'000	Amortisation & non-recurring items (note 6) 2007 £'000	Total 2007 £'000
4	**Revenue**	17,200	–	17,200	15,618	–	15,618
	Cost of sales	(10,469)	–	(10,469)	(9,531)	–	(9,531)
	Gross profit	6,731	–	6,731	6,087	–	6,087
	Pension scheme restructuring costs	–	–	–	–	(105)	(105)
	Other administrative expenses	(4,953)	(28)	(4,981)	(4,623)	–	(4,623)
	Administrative expenses	(4,953)	(28)	(4,981)	(4,623)	(105)	(4,728)
5	Other operating income	260	–	260	287	485	772
	Operating profit	2,038	(28)	2,010	1,751	380	2,131
9	Finance income	320	–	320	269	–	269
9	Finance expense	(421)	–	(421)	(366)	–	(366)
	Net financing costs	(101)	–	(101)	(97)	–	(97)
	Profit before tax from continuing operations	1,937	(28)	1,909	1,654	380	2,034
10	Taxation	(540)	9	(531)	(481)	32	(449)
	Profit for the year attributable to equity holders of the Company	1,397	(19)	1,378	1,173	412	1,585
11	Earnings per share						
	Basic			16.3p			18.8p
	Diluted			16.1p			18.8p

Consolidated Balance Sheet

AT 31 MARCH 2008

Notes		2008 £'000	2007 £'000
	Non-current assets		
12	Intangible assets	16,335	3,979
13	Property, plant and equipment	7,383	6,268
14	Investment properties	1,557	1,588
16	Financial assets – available for sale equity securities	18,450	12,900
17	Non-current assets held for sale	157	–
18	Other financial assets	71	45
19	Deferred tax assets	519	648
	Total non-current assets	44,472	25,428
	Current assets		
20	Inventories	3,340	2,677
21	Trade and other receivables	5,353	2,384
18	Other financial assets	141	133
22	Cash and cash equivalents	2,995	4,959
	Total current assets	11,829	10,153
	TOTAL ASSETS	56,301	35,581
	Current liabilities		
23	Interest bearing loans and borrowings	(2,064)	(542)
	Tax payable	(1,356)	(570)
24	Derivative financial instruments	(72)	(1)
25	Trade and other payables	(7,595)	(4,247)
	Total current liabilities	(11,087)	(5,360)
	Non-current liabilities		
23	Interest bearing loans and borrowings	(6,992)	(2,191)
26	Employee benefits	(2,060)	(2,517)
19	Deferred tax liabilities	(2,134)	(795)
	Total non-current liabilities	(11,186)	(5,503)
	TOTAL LIABILITIES	(22,273)	(10,863)
	Net assets	34,028	24,718
28	Capital and reserves		
	Equity share capital	906	847
	Share premium account	7,206	7,206
	Other reserves	3,145	703
	Retained earnings	6,775	5,482
	Financial assets fair value reserve	15,996	10,480
	Total equity	34,028	24,718

These financial statements were approved by the Board of Directors on 26 June 2008 and were signed on its behalf by:

J L Foster
Director

Company Balance Sheet

AT 31MARCH 2008

Notes		2008 £'000	2007 £'000
	Non-current assets		
15	Financial assets – investments in subsidiaries	43,970	15,105
16	Financial assets – investments in equity securities	–	12,900
21	Other receivables	6,428	–
19	Deferred tax	30	–
	Total non-current assets	50,428	28,005
	Current assets		
21	Trade and other receivables	732	222
22	Cash and cash equivalents	1,102	2,786
	Total current assets	1,834	3,008
	TOTAL ASSETS	52,262	31,013
	Current liabilities		
23	Interest bearing loans and borrowings	(1,805)	(343)
24	Other financial liabilities	(72)	(1)
25	Trade and other payables	(1,071)	(298)
	Total current liabilities	(2,948)	(642)
	Non-current liabilities		
23	Interest bearing loans and borrowings	(5,774)	(757)
25	Other liabilities	(1,949)	–
	Total non-current liabilities	(7,723)	(757)
	TOTAL LIABILITIES	(10,671)	(1,399)
	Net assets	41,591	29,614
28	Capital and reserves		
	Called up share capital	906	847
	Share premium account	7,206	7,206
	Other reserves	7,831	5,389
	Retained earnings	25,648	5,692
	Financial assets fair value reserve	–	10,480
	Total equity	41,591	29,614

These financial statements were approved by the Board of Directors on 26 June 2008 and were signed on its behalf by:

J L Foster
Director

Consolidated Cash Flow Statement

FOR THE YEAR ENDED 31 MARCH 2008

Notes		2008 £'000	2007 £'000
	Cash flows from operating activities		
	Profit for the period	1,378	1,585
	Adjusted for:		
	(i) Non-cash items:		
	Depreciation	534	468
	Amortisation	28	–
	Notional interest charge on deferred consideration	4	–
	Expected return on pension scheme assets	(16)	(13)
	Interest cost on pension scheme liabilities	145	137
	Loss / (gain) on remeasurement of derivative financial instruments	72	(7)
	Equity-settled share-based payment expenses	142	101
	Non-cash items adjustment	909	686
	(ii) Other items:		
	Bank interest receivable	(240)	(205)
	Bank interest payable	200	236
	Gain on disposal of fixed asset investments	–	(485)
	Gain on sale of investment properties	(10)	–
	Income tax expense	531	394
	Other adjustments	481	(60)
	Operating cash flow before changes in working capital and provisions	2,768	2,211
	Decrease / (increase) in trade and other receivables	307	(725)
	(Increase) / decrease in inventories	(345)	429
	Increase in trade and other payables	701	316
	(Decrease) in provisions and employee benefits	8	72
	Cash generated from operations	3,439	2,303
	Income taxes paid	(460)	(338)
	Net cash flow from operating activities	2,979	1,965
	Cash flows from investing activities		
	Purchase of property, plant and equipment	(907)	(282)
	Purchase of investment properties	(12)	–
	Costs incurred in restructuring investment holdings	(34)	–
	Proceeds from sale of investment properties	23	–
2	Acquisition of subsidiary, net of cash acquired	(5,343)	–
	Proceeds from sale of equity securities	–	675
	Interest received	240	205
	Net cash flow from investing activities	(6,033)	598
	Cash flow from financing activities		
	Increase / (decrease) in other financial assets	(34)	–
	Repayment of secured loan	(1,893)	(532)
	Repayment of loan notes	(43)	(43)
	Proceeds from new loan	3,841	–
	Interest paid	(200)	(236)
	Proceeds from the issue of ordinary share capital	10	151
	Dividends paid	(591)	(545)
	Net cash flow from financing activities	1,090	(1,205)
	Net increase in cash and cash equivalents	(1,964)	1,358
	Cash and cash equivalents at start of period	4,959	3,601
	Cash and cash equivalents at end of period	2,995	4,959

Company Cash Flow Statement

FOR THE YEAR ENDED 31 MARCH 2008

Notes		2008 £'000	2007 £'000
	Cash flows from operating activities		
	Profit for the period	20,381	2,238
	Adjusted for:		
	Net financing costs	102	140
	Loss / (gain) on remeasurement of financial instruments	72	(7)
	Gain on sale of fixed asset investments	(20,530)	(485)
	Equity-settled share-based payment expenses	84	64
	Income tax expense	(28)	51
	Operating cash flow before changes in working capital and provisions	81	2,001
	(Increase) / decrease in trade and other receivables	(510)	111
	Increase / (decrease) in trade and other payables	644	(184)
	Increase / (decrease) in provisions	(30)	37
	Cash generated from operations	185	1,965
	Income taxes paid	–	–
	Net cash flow from operating activities	185	1,965
	Cash flows from investing activities		
	Acquisition of subsidiary	(5,165)	–
	Costs in restructuring investment holding	(34)	–
	Proceeds from sale of equity securities	–	675
	Net cash flow from investing activities	(5,199)	675
	Cash flow from financing activities		
	Proceeds from new loan	3,842	–
	Proceeds from inter-company borrowing	554	–
	Repayment of secured loan	(340)	(332)
	Repayment of loan notes	(43)	(43)
	Interest paid	(102)	(140)
	Proceeds from the issue of ordinary share capital	10	151
	Dividends paid	(591)	(545)
	Net cash flow from financing activities	3,330	(909)
	Net increase in cash and cash equivalents	(1,684)	1,731
	Cash and cash equivalents at start of period	2,786	1,055
22	Cash and cash equivalents at end of period	1,102	2,786

Consolidated Statement of Recognised Income and Expense

FOR THE YEAR ENDED 31 MARCH 2008

	2008 £'000	2007 £'000
Gain / (loss) on valuation of available-for-sale equity securities	5,516	(8,625)
PHFC actuarial gain on pension scheme	147	61
FIC actuarial gain on pension scheme	301	118
Movement on deferred tax asset relating to pension schemes	(109)	(48)
Dividends paid	(591)	(545)
Share-based payments	164	101
Movement on deferred tax relating to share-based payments	3	(43)
Net income / (expense) recognised directly in equity	5,431	(8,981)
Profit for the period	1,378	1,585
Total recognised income and expense for the period attributable to shareholders of the parent	6,809	(7,396)

Company Statement of Recognised Income and Expense

FOR THE YEAR ENDED 31 MARCH 2008

	2008 £'000	2007 £'000
Gain / (loss) on valuation of available-for-sale equity securities	–	(8,625)
Transfers to the income statement on disposal of available-for-sale equity securities	(10,480)	–
Dividends paid	(591)	(545)
Share-based payments	164	101
Movement on deferred tax relating to share-based payments	2	(43)
Net expense recognised directly in equity	(10,905)	(9,112)
Profit for the period	20,381	2,279
Total recognised income and expense for the period	9,476	(6,833)

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2008

1 Accounting policies

General information

Falkland Islands Holdings plc (the "Company") is a company incorporated and domiciled in the UK.

Reporting entity

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group"). The Parent Company financial statements present information about the Company as a separate entity and not about its Group.

Authorisation of financial statements and statement of compliance with IFRS

Both the Parent Company financial statements and the Group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRS"). On publishing the Parent Company financial statements here together with the Group financial statements, the Company is taking advantage of the exemption in s230 of the Companies Act 1985 not to present its individual income statement and related notes that form a part of these approved financial statements.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these consolidated financial statements and in preparing an opening IFRS balance sheet at 1 April 2006 for the purposes of the transition to Adopted IFRS.

Judgements made by the Directors in the application of these accounting policies that have a significant effect on the financial statements and estimates with a significant risk of material adjustment next year are discussed in note 34.

Transition to Adopted IFRS

Both the Group and the Company are preparing their financial statements in accordance with Adopted IFRS for the first time and consequently both have applied IFRS 1. An explanation of how the transition to Adopted IFRS has affected the reported financial position, financial performance and cash flows of the Group and Company is provided in note 35.

IFRS 1 grants certain exemptions from the full requirements of Adopted IFRSs in the transition period. The following exemptions have been taken in these financial statements:

- Business combinations – Business combinations that took place prior to 1 April 2006 have not been restated.
- Share based payments – IFRS 2 is being applied only to equity instruments that were granted after 7 November 2002 and that had not vested by 1 April 2006.

Basis of preparation

The financial statements are presented in pounds sterling, rounded to the nearest thousand. They are prepared on the historical cost basis except that available-for-sale financial instruments are stated at their fair value.

Basis of consolidation

The consolidated financial statements comprise the financial statements of Falkland Islands Holdings plc and its subsidiaries (the "Group"). A subsidiary is any entity Falkland Islands Holdings plc has the power to control the financial and operating policies of so as to obtain benefits from its activities. The financial statements of subsidiaries are prepared for the same reporting period as the Parent Company. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

1 Accounting policies CONTINUED

All intra-company balances and transactions, including unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses are eliminated but only to the extent that there is no evidence of impairment.

Investments in subsidiaries not classified as held-for-sale within the Company balance sheet are stated at cost.

Foreign currencies

Transactions in foreign currencies are translated to the functional currencies of Group entities at exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency using the relevant rates of exchange ruling at the balance sheet date and the gains or losses thereon are included in the income statement.

Non-monetary assets and liabilities are translated using the exchange rate at the date of the initial transaction.

Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost comprises purchase price and directly attributable expenses. Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives are as follows:

Freehold buildings	20 – 50 years
Long leasehold land and buildings	50 years
Vehicles, plant and equipment	4 – 10 years
Ships	30 years

The carrying value of assets and their useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. If an indication of impairment exists, the assets are written down to their recoverable amount and the impairment is charged to the income statement in the period in which it arises.

Freehold land is not depreciated.

Investment properties

Investment properties are properties held either to earn rental income or for capital appreciation or for both. Investment properties are stated at cost less any accumulated depreciation (calculated on useful economic lives of 50 years in line with accounting policy, Property, plant and equipment above) and any impairment losses.

Intangible assets

Goodwill

Goodwill arises on the acquisition of subsidiaries.

Acquisitions prior to 1 April 2006

In respect to acquisitions prior to transition to IFRS, goodwill is recorded on the basis of deemed cost, which represents the amount recorded under previous Generally Accepted Accounting Principles ("GAAP") as at the date of transition. The classification and accounting treatment of business combinations which occurred prior to transition has not been reconsidered in preparing the Group's opening IFRS balance sheet at 1 April 2006.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2008

1 Accounting policies CONTINUED

Acquisitions on or after 1 April 2006

Goodwill on acquisition is initially measured at cost, being the excess of the cost of the business combination over the acquirer's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the acquired business. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised but reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Amortisation is charged to the income statement on a straight line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

Trade name	20 years
Customer relationships	6 – 10 years
Non-compete agreements	5 years

Computer software

Acquired computer software is capitalised as an intangible asset on the basis of the cost incurred to acquire and bring the specific software into use. Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The estimated useful life of computer software is five years.

Impairment of non-financial assets

At each reporting date the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists or the asset requires annual impairment testing, the Group makes a formal estimate of the recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount. Impairment losses are recognised in the income statement.

Recoverable amount is the greater of an asset's or cash-generating unit's fair value less cost to sell or value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses are reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Financing costs

Net financing costs comprise interest payable, interest receivable, and foreign exchange gains and losses that are recognised in the income statement.

Interest income and interest payable are recognised as a profit or loss as they accrue, using the effective interest method.

Financial instruments

Certain financial instruments held by the Group are classified as being available-for-sale and are stated at fair value, with any resultant gain or loss being recognised directly in equity, except for impairment losses. When these items are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in profit and loss.

1 Accounting policies CONTINUED

Financial instruments classified as available-for-sale are initially recognised at fair value less directly attributable transaction costs.

The Group does not use derivative financial instruments for speculative purposes. Derivative financial instruments are initially measured at fair value. Changes in the fair value of derivative financial instruments are recognised in the income statement as they arise. The Group has not applied hedge accounting to its derivative financial instruments.

Employee share awards

The Group provides benefits to certain employees (including Directors) in the form of share-based payment transactions, whereby the employee renders service in return for shares or rights over future shares ("equity settled transactions"). The cost of these equity settled transactions with employees is measured by reference to an estimate of their fair value at the date on which they were granted using an option input pricing model taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

The cost of equity settled transactions is recognised, together with a corresponding increase in reserves, over the period in which the performance conditions are fulfilled, ending on the date that the option vests.

Where the Company grants options over its own shares to the employees of subsidiaries, it recognises, in its individual financial statements, an increase in the cost of investment in its subsidiaries equal to the equity settled share-based payment charge recognised in its consolidated financial statements with the corresponding credit being recognised directly in equity.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition, as follows:

The cost of raw materials, consumables and goods for resale comprises purchase cost, on a first-in, first-out basis and where applicable includes expenditure incurred in transportation to the Falkland Islands.

Work-in-progress and finished goods cost includes direct materials and labour plus attributable overheads based on a normal level of activity.

Net realisable value is estimated at selling price in the ordinary course of business less costs of disposal.

Revenue

Revenue is the amount receivable by the Group for goods supplied and services rendered excluding VAT. Revenue principally arises from retail sales, the provision of ferry services and the provision of storage and transportation services for fine art works. In the Falkland Islands revenue also includes hotel takings, insurance commissions, revenues billed for shipping and agency activities and port services. Revenue from sale of goods is recognised at the point of sale or dispatch, whilst that of the ferry, fine art logistics and other services is recognised when the service is provided.

Pensions

Defined contribution pension schemes

The Group operates three defined contribution schemes. The assets of the schemes are held separately from those of the Group in independently administered funds. The amount charged to the income statement represents the contributions payable to the schemes in respect to the accounting period.

Defined benefit pension schemes

The Group also operates two pension schemes providing benefits based on final pensionable pay, one of which is unfunded. The assets of the funded scheme are held separately from those of the Group.

The Group's net obligation in respect of each defined benefit pension plan is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to its present value; and any unrecognised past service costs and the fair value of the plan assets (at bid price) are deducted.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2008

1 Accounting policies CONTINUED

The liability discount rate is the yield at the balance sheet date on AA credit-rated bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the asset recognised is limited to the net total of any unrecognised past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

The current service cost and costs from settlements and curtailments are charged against operating profit.

Past service costs are spread over the period until the benefit increases vest. Interest charged on the scheme liabilities and the expected return on scheme assets are included in other finance costs.

Actuarial gains and losses are recognised in full in the period in which they arise in the statement of recognised income and expense.

Trade and other receivables

Trade receivables are carried at amortised cost, less provision for impairment. Any change in their value through impairment or reversal of impairment is recognised in the income statement.

Trade and other payables

Trade and other payables are stated at their cost less payments made.

Dividends on funds presented within shareholders' funds

Dividends unpaid at the balance sheet date are only recognised as liabilities at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company.

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash balances and call deposits with an original maturity of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Interest bearing borrowings

Interest bearing borrowings are recognised initially at fair value less directly attributable transaction costs. Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

1 Accounting policies CONTINUED

Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement, except to the extent that it relates to items recognised directly in equity, in which case it is recognised directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted, or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary timing differences are not recognised:

- Goodwill not deductible for tax purposes; and
- Initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profits.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax is recognised at the tax rates that are expected to be applied to the temporary differences when they reverse, based on rates that have been enacted or substantially enacted by the reporting date.

Leased assets

Leases in which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. All other leases are classified as operating leases.

As lessee

Rentals in respect of all operating leases are charged to the income statement on a straight line basis over the lease term.

As lessor

Assets under hire purchase agreements are shown in the balance sheet under current assets to the extent they are due within one year, and under non-current assets to the extent that they are due after more than one year, and are stated at the value of the net investment in the agreements. The income from such agreements is credited to the income statement each year so as to give a constant rate of return on the funds invested.

Assets held for leasing out under operating leases are included in investment property (where they constitute land and buildings) or in stock (where they do not constitute land and buildings) at cost less accumulated depreciation and impairment losses. Rental income is recognised on a straight-line basis. Lease incentives granted are recognised as an integral part of the total rental income.

Finance lease payments

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period of the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Non-current assets held for sale and discontinued operations

Non-current assets and discontinued operations are classified as held for sale when their carrying values will be recovered principally through sale. They are measured at the lower of carrying amount and fair value less costs to sell.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2008

1 Accounting policies CONTINUED

Provisions

Provisions are recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect is material, provisions are determined by discounting the expected cash flows at an appropriate pre-tax risk free rate.

New accounting standards and interpretations not applied

During the year, the International Accounting Standards Board ("IASB") and International Financial Reporting Committee ("IFRIC") have issued the following standards and interpretations with an effective date after the end of these financial statements:

International Accounting Standards (IAS/IFRS)	Effective date (accounting periods commencing on or after):
Endorsed	
IFRS 8: Operating segments	1 January 2009
Unendorsed	
IFRS 3 (Revised): Business combinations (2008)	1 July 2009
IAS 1: Amendment to Presentation of financial statements (2007)	1 January 2009
IAS 23: Amendment to Borrowing costs (2007)	1 January 2009
IFRS 2: Amendment to Share-based payments	
Amendments to IAS 32 and IAS 1: Puttable financial instruments and obligations arising on liquidation	1 January 2009
IAS 27: Consolidated financial statements and accounting for investments in subsidiaries (2008)	1 July 2009
International Financial Reporting Interpretations Committee (IFRIC)	
IFRIC 12: Service concession arrangements	1 January 2008
IFRIC 13: Customer loyalty programmes	1 July 2008
IFRIC 14: The limit of defined asset benefit, minimum funding requirements and their interaction	1 January 2008

The Directors do not anticipate that the adoption of the standards and interpretations listed above will have a material impact on the Group's or Company's financial statements in the period of initial application, however additional disclosures will be required.

2 Acquisition of subsidiary

On 5 March 2008, the Company acquired all of the ordinary shares in Momart International Limited for £10,835,000, satisfied in cash and the issue of 582,666 ordinary shares of 10p each at £4.27½ being the average closing price of the shares for the three days preceding completion of the deal. Momart International Limited is the Parent Company of Momart Limited, a leading UK expert in the transportation and storage of fine art. In the twenty-seven days since 5 March 2008 the subsidiary contributed net profit after tax of £20,000 to the consolidated net profit for the year. If the acquisition had occurred on 1 April 2007, Group revenue would have been an estimated £29 million and net profit after tax would have been an estimated £1.6 million (before amortisation and non-recurring items: £2 million). In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition occurred on 1 April 2007.

Consideration paid
Comprises:

	£'000
Initial cash sum	5,165
Contingent consideration[1]	3,022
Deferred consideration payable[2]	157
Ordinary shares	2,491
Total consideration payable	10,835

[1] Contingent consideration shown in the above table as £3,022,000 represents, in accordance with IFRS 3, the net present value of £3,173,000 payable in two annual instalments. These payments are contingent on certain of the vendors remaining Group employees for two years from the date of acquisition.

[2] Deferred consideration payable estimated at £157,000 represents the estimated proceeds from the future disposal of certain items of artwork accumulated by Momart International Limited prior to acquisition and shown as non-current assets held-for-sale on the balance sheet.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2008

2 Acquisition of subsidiary CONTINUED

Effect of acquisition

The acquisition had the following effect on the Group's assets and liabilities:

	Pre-acquisition carrying amounts £'000	Provisional fair value adjustments £'000	Recognised provisional values on acquisition £'000
Acquiree's net assets at the acquisition date:			
Property, plant and equipment	710	–	710
Other fixed assets[1]	47	110	157
Intangible assets[2]	–	4,777	4,777
Inventories	318	–	318
Trade and other receivables	3,276	–	3,276
Cash and cash equivalents	(178)	–	(178)
Interest-bearing loans and borrowings	(1,395)	–	(1,395)
Trade and other payables	(3,083)	–	(3,083)
Deferred tax liabilities[2]	(24)	(1,330)	(1,354)
Net identifiable assets and liabilities	(329)	3,557	3,228
Goodwill on acquisition			7,607
Consideration paid (including professional fees of £566,000 satisfied in cash)			10,835
Less: non-cash, contingent and deferred consideration			(5,670)
Initial cash sum			5,165
Add: Overdraft (acquired)			178
Net cash outflow			5,343

Fair value adjustments

[1] Relates to recognising certain items of artwork accumulated by Momart International Limited prior to acquisition at auctioneer's estimate prior to disposal.

[2] Relates to the recognition of the following intangible assets at fair value:

	£'000
Trade name	2,823
Customer relationships	1,882
Non-compete agreements	72
	4,777

Included in £7,607,000 of goodwill recognised above are certain intangible assets that cannot be individually separated and reliably measured from the acquiree due to their nature. These items include the skills and technical talent of the acquired business' workforce.

3 Segmental information

Segment information is presented in respect of the Group's business and geographical segments. The primary reporting format is determined to be by business type: the provision of ferry services; arts logistics and storage; and general trading in the Falkland Islands. The secondary reporting format is determined to be geographical.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment and intangible assets other than goodwill.

Primary reporting format – business

Year ended 31 March 2008	Ferry Services (Portsmouth) £'000	Art logistics and storage (UK) £'000	General trading (Falklands) £'000	Total £'000
External revenue	3,531	1,066	12,603	**17,200**
Segment operating profit before tax, amortisation and non-recurring items	717	112	1,209	**2,038**
Amortisation and non-recurring items	–	(28)	–	**(28)**
Segment operating profit	717	84	1,209	**2,010**
Finance expense	(170)	(29)	(222)	**(421)**
Finance income	64	–	256	**320**
Segment profit before tax	611	55	1,243	**1,909**
Taxation	(211)	(35)	(285)	**(531)**
Segment profit after tax	400	20	958	**1,378**
Assets and liabilities				
Segment assets	9,875	15,813	12,784	**38,472**
Segment liabilities	(1,413)	(4,930)	(7,868)	**(14,211)**
Unallocated assets and liabilities	–	–	–	**9,767**
Segment net assets	8,462	10,883	4,916	**34,028**
Other segment information				
Capital expenditure:				
Property, plant and equipment	62	5	840	**907**
Investment properties	–	–	52	**52**
Depreciation – property, plant and equipment	220	18	264	**502**
Depreciation – investment properties	–	–	32	**32**
Amortisation	–	28	–	**28**

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2008

3 Segmental information CONTINUED

Year ended 31 March 2007

	Ferry Services (Portsmouth) £'000	General trading (Falklands) £'000	Total £'000
External revenue	3,362	12,256	15,618
Segment operating profit before tax, amortisation and non-recurring items	592	1,159	1,751
Amortisation and non-recurring items	–	380	380
Segment operating profit	592	1,539	2,131
Finance expense	(139)	(214)	(353)
Finance income	99	157	256
Segment profit before tax	552	1,482	2,034
Tax	(87)	(362)	(449)
Segment profit after tax	465	1,120	1,585
Assets and liabilities			
Segment assets	8,779	15,395	24,174
Segment liabilities	(706)	(11,413)	(12,119)
Unallocated assets and liabilities	–	–	12,663
Segment net assets	8,073	3,982	24,718
Other segment information			
Capital expenditure – property, plant and equipment	65	217	282
Depreciation – property, plant and equipment	194	242	436
Depreciation – investment properties	–	32	32

3 Segmental information CONTINUED

Secondary reporting format – geographic

	United Kingdom £'000	2008 Falkland Islands £'000	Total £'000
External revenue	4,597	12,603	17,200
Assets and liabilities			
Segment assets	25,688	12,784	38,472
Other segment information			
Capital expenditure	67	892	959

	United Kingdom £'000	2007 Falkland Islands £'000	Total £'000
External revenue	3,362	12,256	15,618
Assets and liabilities			
Segment assets	8,779	15,395	24,174
Other segment information			
Capital expenditure	65	217	282

4 Revenue

	2008 £'000	2007 £'000
Sale of goods	10,864	10,625
Rendering of services	6,336	4,993
Total revenue	17,200	15,618

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2008

5 Other operating income

	2008 £'000	2007 £'000
Net gain on disposal of property, plant and equipment	13	–
Foreign exchange commission receivable	29	83
Investment property rentals	218	204
Total other operating income	260	287

6 Amortisation and non-recurring items

	2008 £'000	2007 £'000
Amortisation charge on Momart intangible assets acquired	(28)	–
Pension scheme restructuring costs	–	(105)
Gain on available-for-sale financial assets	–	485
Amortisation and non-recurring items (charge) / gain	(28)	380

Underlying profit

	2008 £'000	2007 £'000
Profit before tax as reported	1,909	2,034
Add: amortisation and non-recurring items (from above)	28	(380)
Underlying profit[1]	1,937	1,654

[1] The Group defines underlying profit as profit before tax, amortisation and non-recurring items.

7 Expenses and auditors' remuneration

	Group		Company	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Included in profit / loss are the following expenses:				
Direct operating expenses arising from investment properties which generated rental income in the period	69	92	–	–
Depreciation	534	468	–	–
Amortisation of intangible assets	28	–	–	–
Foreign currency differences	(4)	2	–	–
Impairment loss on trade and other receivables	82	78	–	–
Cost of inventories recognised as an expense	8,649	7,933	–	–
Operating lease payments	67	35	–	–

7 Expenses and auditors' remuneration CONTINUED

Auditors' remuneration

	2008 £'000	2007 £'000
Audit of these financial statements	24	19
and amounts receivable by auditors and their associates in respect of:		
Audit of subsidiaries' financial statements pursuant to legislation	62	38
Other services relating to taxation	23	20
All other services	15	–
Total auditors' remuneration	124	77

Amounts paid to the Company's auditors and their associates in respect of services to the Company, other than the audit of the Company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis.

8 Staff numbers and cost

The average number of persons employed by the Group (including Directors) during the year, analysed by category, was as follows:

	Number of employees Group		Number of employees Company	
	2008	2007	2008	2007
At Gosport Ferry	40	41	–	–
At Falklands Islands Company, in Stanley	87	86	–	–
At Falklands Islands Support, in UK	4	4	–	–
At Momart Limited	10	–	–	–
At Head Office	3	3	3	3
Total average staff numbers	144	134	3	3

The aggregate payroll cost of these persons were as follows:

	Group		Company	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Wages and salaries	3,969	3,399	506	522
Share-based payments (see note 27)	164	101	84	64
Social security costs	248	211	46	49
Contributions to defined contribution plans	174	149	24	29
Expenses relating to defined benefit plans	–	–	–	–
Total employment costs	4,555	3,860	660	664

Details of Directors' remuneration are provided in the Directors' Report, under the heading 'Details of Directors' Remuneration and Emoluments' on page 17.

Notes to the Financial Statements

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9 Finance income and expense

	2008 £'000	2007 £'000
Bank interest receivable	240	205
Finance lease interest receivable	64	51
Expected return on pension scheme assets	16	13
Total financial income	320	269
Interest payable on bank loans	(200)	(236)
Interest cost on pension scheme liabilities	(145)	(137)
Interest attributable to deferred consideration payable	(4)	–
Loss on remeasurement of derivative financial instrument	(72)	7
Total financial expense	(421)	(366)
Net financing cost	(101)	(97)

	2008 £'000	2007 £'000
Bank interest receivable	240	205
Interest payable on bank loans	(200)	(236)
Net bank interest	40	(31)
Other financing charges (from above)	(141)	(66)
Net financing cost	(101)	(97)

10 Taxation

Recognised in the income statement

	2008 £'000	2007 £'000
Current tax expense		
Current year	645	544
Adjustments for prior years	(122)	(13)
Current tax expense	523	531
Deferred tax expense		
Origination and reversal of temporary differences	(25)	(44)
Reduction in tax rate	(33)	–
Changes in recoverable amounts	66	(38)
Deferred tax expense	8	(82)
Total tax expense	531	449

10 Taxation CONTINUED

Reconciliation of effective tax rate

	2008 £'000	2007 £'000
Profit on ordinary activities before tax	1,909	2,034
Tax using the UK corporation tax rate of 30% *(2007: 30%)*	573	610
Expenses not deductible for tax purposes	37	8
Capital allowances less than depreciation	–	–
Non-taxable income	–	(84)
Other timing differences	22	(3)
Excess foreign tax	–	(5)
Marginal relief	(3)	(2)
Lower tax charges overseas	(9)	(24)
Reduction in deferred tax rate	(33)	–
Adjustments to tax charge in respect of previous periods	(56)	(51)
Total tax expense	531	449

	2008 %	2007 %
Effective tax rate	27.8	22.1

Tax recognised directly in equity

	2008 £'000	2007 £'000
Current tax recognised directly in equity		
Deferred tax recognised directly in equity	106	91
Total tax recognised directly in equity	106	91

11 Earnings per share

The calculation of basic earnings per share is based on profits on ordinary activities after taxation, and the weighted average number of shares in issue in the period, excluding shares held under the Employee Share Ownership Plan ("ESOP") (see note 28).

The calculation of diluted earnings per share is based on profits on ordinary activities after taxation, and the weighted average number of shares in issue in the period, excluding shares held under the ESOP, adjusted to assume the full issue of share options outstanding, to the extent that they are dilutive.

	2008 £'000	2007 £'000
Profit on ordinary activities after taxation (see page 22)	1,378	1,585

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2008

11 Earnings per share CONTINUED

	2008 Number	2007 Number
Weighted average number of shares in issue	8,514,566	8,466,060
Less: shares held under the ESOP	(36,212)	(48,917)
Average number of shares in issue excluding the ESOP	8,478,354	8,417,143
Maximum dilution with regards to share options	100,644	30,927
Diluted weighted average number of shares	8,578,998	8,448,070

	2008	2007
Basic earnings per share	16.3p	18.8p
Diluted earnings per share	16.1p	18.8p

To provide a comparison of earnings per share on underlying performance, the calculation below sets out basic and diluted earnings per share based on profits before amortisation and non-recurring items.

Earnings per share on underlying profit

	2008	2007
Profit after tax before non-recurring items and amortisation (see page 22) (£'000)	1,397	1,173
Weighted average number of shares in issue excluding ESOP (from above)	8,478,354	8,417,143
Diluted weighted average number of shares (from above)	8,578,998	8,448,070
Basic earnings per share on underlying profit	16.5p	13.9p
Diluted earnings per share on underlying profit	16.3p	13.9p

12 Intangible assets

	Customer relationships £'000	Group Brand names £'000	Non-compete Agreements £'000	Goodwill £'000	**Total £'000**
Cost:					
As at 1 April 2006 and 1 April 2007	–	–	–	3,979	**3,979**
Acquisitions through business combinations	1,882	2,823	72	7,607	**12,384**
At 31 March 2008	1,882	2,823	72	11,586	**16,363**
Accumulated amortisation:					
As at 1 April 2006 and 1 April 2007	–	–	–	–	**–**
Amortisation for the year	(17)	(10)	(1)	–	**(28)**
At 31 March 2008	(17)	(10)	(1)	–	**(28)**
Net book value:					
As at 1 April 2006 and 1 April 2007	–	–	–	3,979	**3,979**
As at 31 March 2008	1,865	2,813	71	11,586	**16,335**

The amortisation charge is recognised in other administrative expense in the income statement.

Customer relationships – are on-going relationships, both contractual and otherwise, with customers considered to be of future economic benefit to the Group with estimated useful economic lives of 6-10 years.

Brand names – is the Momart brand considered to be of future economic value to the Group with an estimated useful economic life of 20 years.

Non-compete Agreements – are contractually binding agreements with senior Momart personnel not to compete with the Group for five years in the event of their leaving the Group's service.

Impairment testing

Goodwill has been allocated to cash generating units or groups of cash generating units as follows:

	2008 £'000	2007 £'000
Portsmouth Harbour Ferry	**3,979**	3,979
Momart Limited	**7,607**	–
Total goodwill	**11,586**	3,979

This is the lowest level in the Group at which goodwill is monitored for internal management purposes.

The recoverable amount of goodwill relating to each cash generating unit has been calculated with reference to value in use.

To assess value in use, the Group prepares cash flow forecasts, derived from the most recent financial budgets approved by management, for a five year period and extrapolates these cash flows based on an estimate of future growth rates. Based on the assumption that future growth rates and unit profitability will remain at least similar to 2008, and a post-tax discount rate of 8.5%, the above carrying values are below recoverable amounts and no provision for impairment is recognised.

The Company has no intangible assets.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2008

13 Property, plant and equipment

	Group				
	Freehold land & buildings £'000	Long leasehold land & buildings £'000	Ships £'000	Vehicles, plant & equipment £'000	Total £'000
Cost:					
At 1 April 2006 – as restated	3,261	342	3,289	2,828	9,720
Acquisitions	97	–	28	157	282
At 31 March 2007	3,358	342	3,317	2,985	10,002
Acquisitions through business combinations	–	307	–	403	710
Other acquisitions	408	44	46	409	907
Disposals	–	–	–	(29)	(29)
At 31 March 2008	3,766	693	3,363	3,768	11,590
Accumulated depreciation:					
At 1 April 2006	1,350	50	130	1,768	3,298
Charge for the year	82	7	132	215	436
At 31 March 2007	1,432	57	262	1,983	3,734
Charge for the year	85	18	153	246	502
Disposals	–	–	–	(29)	(29)
At 31 March 2008	1,517	75	415	2,200	4,207
Net book value:					
At 1 April 2006	1,911	292	3,159	1,060	6,422
At 31 March 2007	1,926	285	3,055	1,002	6,268
At 31 March 2008	2,249	618	2,948	1,568	7,383

The Company has no tangible fixed assets.

14 Investment property

	Residential and commercial property £'000	Freehold land £'000	Total £'000
Cost recognised on transition to IFRS at 1 April 2006	889	731	1,620
Acquisitions	–	–	–
Disposals	–	–	–
At 1 April 2007	889	731	1,620
Acquisitions	12	40	52
Disposals	–	(51)	(51)
At 1 March 2008	901	720	1,621
Accumulated depreciation:			
Charge for the year ended 31 March 2007	32	–	32
At 1 March 2007	32	–	32
Charge for the year	32	–	32
Disposals	–	–	–
At 1 March 2008	64	–	64
Net book value at 1 April 2006	889	731	1,620
Net book value at 31 March 2007	857	731	1,588
Net book value at 31 March 2008	837	720	1,557

Investment properties comprise residential and commercial property held for rental in the Falklands with a fair value of approximately £2.8 million at 31 March 2008. This valuation was undertaken by a Director of a subsidiary company who is resident in the Falkland Islands and is considered to have the relevant knowledge and experience to undertake the valuation. The Group also holds around 830 acres of land for which it is not possible to determine fair value, due to the restricted and limited market for freehold land in the Falkland Islands. Nonetheless the carrying value of land held at historic cost remains sufficiently low to enable Directors to satisfy themselves that no impairment exists at the balance sheet date.

The Company holds no investment properties.

15 Investments in subsidiaries

The Group and Company have the following direct and indirect investments in subsidiaries:

	Country of incorporation	Class of shares held	Ownership % 2008	2007
The Falkland Islands Company Limited	UK	Ordinary shares of £1	100%	100%
		Preference shares of £10		
The Falkland Islands Trading Company Limited	UK	Ordinary shares of £1	100%	100%
Darwin Shipping Limited*	Falkland Islands	Ordinary shares of £1	100%	100%
The Portsmouth Harbour Ferry Company Limited	UK	Ordinary shares of £1	100%	100%
Portsea Harbour Company Limited*	UK	Ordinary shares of £1	100%	100%
Clarence Marine Engineering Limited*	UK	Ordinary shares of £1	100%	100%
Gosport Ferry Limited*	UK	Ordinary shares of £1	100%	100%
Momart International Limited	UK	Ordinary shares of £1	100%	0%
Momart Limited*	UK	Ordinary shares of £1	100%	0%
Erebus Limited*	Falkland Islands	Ordinary shares of £1	100%	100%
		Preference shares of £1		

* These investments are not held by the Company but are indirect investments held through a subsidiary of the Company.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2008

15 Investments in subsidiaries CONTINUED

Company investments in Group undertakings

	Company	
	2008	2007
	£'000	£'000
Balance brought forward	**15,105**	15,068
Cost of share-based payments recognised in subsidiaries	**80**	37
Acquisition of Momart International Limited	**10,835**	–
Investment in Erebus Limited	**17,950**	–
Total investment in Group undertakings	**43,970**	15,105

16 Financial assets – available-for-sale equity securities

	Group		Company	
	2008	2007	**2008**	2007
	£'000	£'000	**£'000**	£'000
Non-current				
Available-for-sale equity securities	**18,450**	12,900	**–**	12,900

Available for sale financial assets comprise the Group's holding of 15,000,000 ordinary shares in Falkland Oil and Gas Limited ("FOGL") representing a 16.25% interest *(2007: 15 million shares)*. On 7 September 2007 the Company transferred its entire interest in FOGL to Erebus Limited, a wholly-owned subsidiary incorporated in the Falkland Islands.

In the prior year, on 12 January 2007 the Company disposed of its investment in Falkland Gold and Minerals Limited by selling its entire holding of 11,250,000 shares with a cost of £190,000 for £675,000 resulting in a profit on disposal of £485,000.

The historic cost of the Group's investment in FOGL is £2,450,000.

17 Non-current assets held-for-sale

	Group		Company	
	2008	2007	**2008**	2007
	£'000	£'000	**£'000**	£'000
Non-current assets held-for-sale	**157**	–	**–**	–

Non-current assets held-for-sale comprise certain items of artwork accumulated by Momart International Limited prior to acquisition which go to auction in July 2008. The proceeds net of tax form the deferred consideration due to the vendors (see note 2). The assets were recognised at estimated fair value on acquisition and as a result no gain or loss arose on their being classified as held for sale.

18 Other financial assets

	Group 2008 £'000	Group 2007 £'000
Non-current		
Finance lease debtors due after more than one year	71	45
Current		
Finance lease debtors due within one year	141	133
Total other financial assets	212	178

The cost of assets acquired for the purpose of letting under hire purchase agreements by the Group during the period amounted to £219,000 *(2007: £186,000)*.

The aggregate rentals receivable during the period in respect of hire purchase agreements were £222,000 *(2007: £182,000)*.

	2008 £'000	2007 £'000
Gross investment in hire purchase leases	254	222
Present value of future lease payments due:		
within 1 year	141	133
after more than 1 year within 5 years	71	45
Net investment in hire purchase leases	212	178

19 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities	Group			
	Assets		Liabilities	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Property, plant and equipment	59	–	973	808
Intangible assets	–	–	1,338	–
Inventories	76	13	–	–
Other financial liabilities	20	–	–	–
Share-based payments	22	–	–	–
Pension	519	648	–	–
Tax assets / liabilities	696	661	2,311	808
Net of tax assets	–	–	(696)	(661)
Net tax liabilities	–	–	1,615	147

The deferred tax asset shown as a non-current asset in the balance sheet relates to the Group's pension scheme liabilities (see note 26) All other deferred tax assets are shown net against the non-current deferred tax liability shown in the balance sheet.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2008

19 Deferred tax assets and liabilities CONTINUED

	Company			
	Assets		Liabilities	
	2008 £'000	2007 £'000	**2008 £'000**	2007 £'000
Other financial liabilities	**20**	–	**–**	–
Share-based payments	**10**	–	**–**	–
Net tax asset	**30**	–	**–**	–

Movement in deferred tax in the year

	Group				
	1 April 2007 £'000	Recognised in income £'000	Recognised in equity £'000	Acquired in business combinations £'000	**31 March 2008 £'000**
Property, plant and equipment	808	90	–	16	**914**
Intangible assets	–	–	–	1,338	**1,338**
Inventories	(13)	(63)	–	–	**(76)**
Other financial liabilities	–	(20)	–	–	**(20)**
Share-based payments	–	(19)	(3)	–	**(22)**
Pension	(648)	20	109	–	**(519)**
Deferred tax movements	147	8	106	1,354	**1,615**

	Company			
	1 April 2007 £'000	Recognised in income £'000	Recognised in equity £'000	**31 March 2008 £'000**
Other financial liabilities	–	20	–	**20**
Share-based payments	–	8	2	**10**
Deferred tax movements	–	28	2	**30**

Movement in deferred tax in the prior year

	Group			
	1 April 2006 £'000	Recognised in income £'000	Recognised in equity £'000	31 March 2007 £'000
Property, plant and equipment	853	(45)	–	808
Inventories	–	(13)	–	(13)
Share-based payments	(46)	3	43	–
Pension	(669)	(27)	48	(648)
Deferred tax movements	138	(82)	91	147

19 Deferred tax assets and liabilities CONTINUED

	Company			
	1 April 2006 £'000	Recognised in income £'000	Recognised in equity £'000	31 March 2007 £'000
Share-based payments	(46)	3	43	–
Deferred tax movements	(46)	3	43	–

20 Inventories

	Group	
	2008 £'000	2007 £'000
Work-in-progress	**161**	–
Goods for resale	**3,179**	2,677
Total inventories	**3,340**	2,677

During the year £75,000 *(2007: £142,000)* of inventory write-downs has been recognised as an expense in the income statement.

The Company has no inventories.

21 Trade and other receivables

	Group		Company	
	2008 £'000	2007 £'000	**2008 £'000**	2007 £'000
Non-current:				
Amount owed by subsidiary undertakings	**–**	–	**6,428**	–

	Group		Company	
	2008 £'000	2007 £'000	**2008 £'000**	2007 £'000
Current:				
Trade and other receivables	**4,643**	2,223	**31**	16
Amounts owed by subsidiary undertakings	**–**	–	**701**	205
Corporation tax	**–**	–	**–**	1
Prepayments and accrued income	**710**	161	**–**	–
Total trade and other receivables	**5,353**	2,384	**732**	222

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2008

22 Cash and cash equivalents / bank overdrafts

	Group		Company	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Cash and cash equivalents in the balance sheet	2,995	4,959	1,102	2,786
Cash and cash equivalents in the cash flow statements	2,995	4,959	1,102	2,786

23 Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group and Company's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group and Company's exposure to interest rate and foreign currency risk, see note 29.

	Group		Company	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Non-current liabilities				
Secured bank loans	5,458	2,191	4,257	757
Finance lease liabilities	17	–	–	–
Contingent consideration on acquisition	1,517	–	1,517	–
Total non-current interest bearing loans and borrowings	6,992	2,191	5,774	757
Current liabilities				
Current portion of secured bank loans	536	499	300	300
Finance lease liabilities	23	–	–	–
Current portion of contingent consideration on acquisition	1,505	–	1,505	–
Unsecured loan notes	–	43	–	43
Total current interest-bearing loans and borrowings	2,064	542	1,805	343

Net debt / (funds)

	Group		Company	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Total interest bearing loans and borrowings	9,056	2,733	7,579	1,100
less: cash balances (see note 22)	(2,995)	(4,959)	(1,102)	(2,786)
Net debt / (funds)	6,061	(2,226)	6,477	(1,686)

Finance lease liabilities

	Group		Company	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Future minimum lease payments due:				
within one year	23	–	–	–
after more than one year but within five years	17	–	–	–
after more than five years	–	–	–	–
Total minimum lease payments due	40	–	–	–

For more information regarding the maturity of the Group and Company's interest bearing loans and borrowings see note 29.

24 Derivative financial instruments

	Group 2008 £'000	Group 2007 £'000	Company 2008 £'000	Company 2007 £'000
Fair value liability of derivative financial instruments	72	1	72	1

This amount represents the fair value of interest rate hedging instruments on certain of the Group's secured bank loans, for more information see note 29.

25 Trade and other payables

	Group 2008 £'000	Group 2007 £'000	Company 2008 £'000	Company 2007 £'000
Non-current:				
Amount owed to subsidiary undertaking	–	–	1,949	–

	Group 2008 £'000	Group 2007 £'000	Company 2008 £'000	Company 2007 £'000
Current:				
Trade payables	4,592	3,181	–	–
Other creditors, including taxation and social security	1,155	260	518	24
Accruals and deferred income	1,848	806	553	274
Total trade and other payables	7,595	4,247	1,071	298

26 Employee benefits: pension plans

The Group operates three defined contribution schemes. In addition, it also operates two defined benefit pension schemes, both of which have been closed to new members and to future accrual.

Defined contribution schemes

The Group operates three defined contribution pension schemes. The pension cost charge for the period represents contributions payable by the Group to the schemes and amounted to £174,000 *(2007: £145,000)*. The Group anticipates paying contributions amounting to £230,000 during the year ending 31 March 2009.

There were no outstanding or prepaid contributions at either the beginning or end of the financial year.

Defined benefit pension schemes

A summary of the fair value of the net pension schemes deficit is set out below:

	2008 £'000	2007 £'000
Pension scheme deficit:		
Falkland Islands Company Limited Scheme	(1,863)	(2,136)
Portsmouth Harbour Ferry Company Limited Scheme	(197)	(381)
	(2,060)	(2,517)
Deferred tax	519	648
Net pension scheme deficit	(1,541)	(1,869)

Notes to the Financial Statements

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26 Employee benefits: pension plans CONTINUED

Falkland Islands Company Limited Scheme

The Falkland Islands Company Limited operates a defined benefit pension scheme for certain employees which is unfunded and was closed to new members in 1988. This scheme was closed to further accrual on 31 March 2007. Benefits are payable on retirement at the normal retirement age.

The latest full actuarial valuation was carried out at 31 March 2005 and was updated for IAS 19 purposes to 31 March 2008 by a qualified independent actuary, Lane Clark & Peacock LLP. The major assumptions used in this valuation were:

	2008	2007
Rate of increase in salaries	2.7%	2.6%
Rate of increase in pensions in payment and deferred pensions	3.0%	3.0%
Discount rate applied to scheme liabilities	6.6%	5.4%
Inflation assumption	3.7%	3.2%

The assumptions used by the actuary are chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

Scheme liabilities

The present value of the scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were:

	Value at 2008 £'000	Value at 2007 £'000	Value at 2006 £'000	Value at 2005 £'000
Present value of scheme liabilities	(1,863)	(2,136)	(2,107)	(2,141)
Related deferred tax asset	465	534	527	696
Net pension liability	(1,398)	(1,602)	(1,580)	(1,445)

Movement in deficit during the year:

	2008 £'000	2007 £'000
Deficit in scheme at beginning of the year	(2,136)	(2,107)
Current service cost	–	(28)
Past service cost	(10)	(197)
Curtailment gain	–	91
Pensions paid	95	93
Other finance cost	(113)	(106)
Actuarial gain	301	118
Deficit in scheme at end of the year	(1,863)	(2,136)

26 Employee benefits: pension plans CONTINUED

Analysis of other pension costs charged in arriving at operating profit:

	2008 £'000	2007 £'000
Current service cost	–	(28)
Past service cost	(10)	(197)
Curtailment gain	–	91
Charged to income statement	(10)	(134)

Analysis of amounts included in other finance costs:	2008 £'000	2007 £'000
Interest on pension scheme liabilities	(113)	(106)

Analysis of amount recognised in statement of recognised income and expense :

	2007 £'000	2006 £'000
Experience (losses) / gains arising on scheme liabilities	(18)	(3)
Changes in assumptions underlying the present value of scheme liabilities	319	121
Actuarial gain / (loss) recognised in statement of recognised income and expense	301	118

History of experience gains and losses:

	2008	2007	2006	2005
Experience gains and losses on scheme liabilities:				
Amount (£'000)	(18)	(3)	80	Unavailable
Percentage of year end present value of scheme liabilities	0.97%	0.14%	3.7%	–
Total amount recognised in statement of recognised income and expense:				
Amount (£'000)	301	121	(23)	(51)
Percentage of year end present value of scheme liabilities	(17.1)%	(5.7)%	(1.1)%	(2.3)%

Portsmouth Harbour Ferry Company Plc (1975) Retirement Fund

This Company operated a defined benefit scheme. The scheme has been closed for many years and none of the current employees are earning benefits under the scheme. Actuarial reports for IAS 19 purposes as at 31 March 2008, 31 March 2007, 31 March 2006 and 31 March 2005 were prepared by a qualified independent actuary, Alexander Forbes Limited.

The major assumptions used in this valuation were:

	2008	2007	2006	2005
Rate of increase in pensions in payment and deferred pensions	3.7%	3.2%	3.0%	3.0%
Discount rate applied to scheme liabilities	6.9%	5.4%	4.9%	5.0%
Inflation assumption	3.7%	3.2%	3.0%	3.0%

The assumptions used by the actuary are chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2008

26 Employee benefits: pension plans CONTINUED

Scheme assets

The fair value of the scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were:

	Value at 2008 £'000	Value at 2007 £'000	Value at 2006 £'000	Value at 2005 £'000
Equities	**207**	156	133	91
Fixed interest	**37**	20	17	34
Other	**36**	34	6	–
Total market value of assets	**280**	210	156	125
Present value of scheme liabilities	**(477)**	(591)	(627)	(415)
Deficit in the scheme – Pension liability	**(197)**	(381)	(471)	(290)
Related deferred tax asset	**54**	114	142	87
Net pension liability	**(143)**	(267)	(329)	(203)

The expected rates of return on the assets in the scheme were:

	Long term rate of return 2008	Long term rate of return 2007
Equities	**7.55%**	7.50%
Fixed interest	**6.90%**	5.00%
Other	**5.25%**	5.00%

Movement in deficit during the year:

	2008 £'000	2007 £'000
Projected benefit obligations		
Opening projected benefit obligations	**(591)**	(627)
Interest thereon	**(32)**	(31)
Distributions	**2**	2
Experience gain	**144**	65
Projected benefit obligations at 31 March	**(477)**	(591)
Plan assets		
Opening plan assets	**210**	156
Distributions	**(2)**	(2)
Contributions	**53**	47
Return on assets	**19**	9
Plan assets at 31 March	**280**	210
Deficit in scheme at 31 March	**(197)**	(381)

26 Employee benefits: pension plans CONTINUED

Analysis of amounts included in other finance costs:

	2008 £'000	2007 £'000
Expected return on pension scheme assets	16	13
Interest on pension scheme liabilities	(32)	(31)
Included in other finance costs	(16)	(18)

Analysis of amount recognised in statement of total recognised gains and losses :

	2008 £'000	2007 £'000
Actual return less expected return on scheme assets	3	(4)
Experience gains and losses arising on scheme liabilities	–	–
Changes in assumptions underlying the present value of scheme liabilities	144	65
Actuarial loss recognised in statement of total recognised gains and losses	147	61

History of experience gains and losses

	2008	2007	2006	2005
Difference between the expected and actual return on scheme assets:				
Amount (£'000)	3	(4)	19	Unavailable
Percentage of year end scheme assets	15.8%	1.0%	12.2%	–
Experience gains and losses on scheme liabilities:				
Amount (£'000)	–	–	(72)	–
Percentage of year end present value of scheme liabilities	–	–	(15.2)%	–
Total amount recognised in statement of total recognised gains and losses:				
Amount (£'000)	147	61	(88)	–
Percentage of year end present value of scheme liabilities	773.7%	(17.1)%	(18.7)%	–

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FOR THE YEAR ENDED 31 MARCH 2008

27 Employee benefits: share-based payments

Retained earnings is used to record the costs arising under IFRS 2 for options issued to Directors and employees, and similar costs associated with share-based payments.

The following options were outstanding during the year:

Date of issue	Number	Exercise price £	Share price at grant date £	Fair value per share £	Total fair value £	Earliest exercise date	Expiry date
27 Jul 01	30,000	1.40	Not valued for IFRS2 purposes			27 Jul 04	26 Jul 11
15 Aug 02	81,300	1.85				15 Aug 05	14 Aug 12
10 Feb 05	57,692	5.20	5.20	1.75	100,961	10 Feb 08	9 Feb 15
14 Jun 05	62,500	4.25	4.25	1.66	103,750	14 Jun 08	13 Jun 15
14 Jun 05	63,528	4.25	4.25	1.11	70,516	14 Jun 08	13 Jun 15
13 Jul 06	88,189	3.18	3.18	0.64	56,441	13 Jul 09	12 Jul 16
18 Jun 07	17,500	3.09	2.83	0.82	14,350	18 Jun 10	17 Jun 17
5 Jul 07	153,996	2.50	3.025	1.08	166,316	5 Jul 10	4 Jul 17
7 Aug 07	27,517	3.30	3.325	0.73	20,087	7 Aug 10	6 Aug 17
4 Dec 07	77,500	3.19	3.40	1.19	92,225	4 Dec 10	3 Dec 17
	659,722				624,646		

The fair values of the options are estimated at the date of grant using appropriate option pricing models and are charged to the profit and loss account over the expected life of the options.

The following table gives the assumptions made in determining the fair value of the options subject to the provisions of IFRS 2 currently in issue. Expected volatility is determined by reference to past performance of the Company's share price.

	13-Jul-06	18-Jun-07	5-Jul-07	07-Aug-07	04-Dec-07
Expected volatility (%)	31%	31%	40%	33%	33%
Risk-free interest rate (%)	4.7%	5.6%	5.70%	5.30%	4.50%
Expected life of options (years)	6.5	6.5	3.0	6.5	6.5
Dividend yield (%)	2.1%	2.5%	2.30%	2.1%	2.1%
Share price at grant date (£)	£3.18	£2.83	£3.025	£3.325	£3.40

Share options issued without share price conditions attached have been valued using the Black-Scholes model. Share price options issued with share price conditions attached have been valued using a Monte Carlo simulation model making explicit allowance for share price targets.

During the year ended 31 March 2008, 35,000 options were exercised over ordinary shares.

Options issued prior to 6 November 2002 are not subject to the provisions of IFRS 2.

27 Employee benefits: share-based payments CONTINUED

The number and weighted average exercise prices of share options are as follows:

	Weighted average exercise price (£) 2008	Number of options 2008	Weighted average exercise price (£) 2007	Number of options 2007
Outstanding at the beginning of the year	**3.24**	418,209	2.99	450,492
Forfeited during the year	–	–	3.87	(42,000)
Exercised during the year	**1.36**	(35,000)	1.71	(93,472)
Granted during the year	**2.81**	276,513	3.18	103,189
Lapsed during the year	–	–	–	–
Outstanding at the year end	**3.16**	659,722	3.24	418,209
Vested options exercisable at the year end	**2.91**	168,992	1.64	146,300

During the year the Company amended the rules of its Executive Share Option Plans such that in future on exercise the option holder is issued with shares commensurate to the gain under the option only.

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28 Capital and reserves

Reconciliation of movement in capital and reserves – Group

	Called up share capital £'000	Financial assets fair value revaluation reserve[1] £'000	Share premium account £'000	Other reserves[2] £'000	Retained earnings £'000	Total equity £'000
Balance at 1 April 2006	838	20,659	7,064	703	4,253	33,517
Profit for the year	–	–	–	–	1,585	1,585
Realisation of available-for-sale assets	–	(1,554)	–	–	–	(1,554)
Share-based payments	–	–	–	–	101	101
Deferred tax on share-based payments	–	–	–	–	(43)	(43)
Dividends	–	–	–	–	(545)	(545)
Issue of shares	9	–	–	–	–	9
Premium on shares issued in the year, net of expenses	–	–	142	–	–	142
Change in fair value of available-for-sale financial assets	–	(8,625)	–	–	–	(8,625)
Actuarial gain on pension, net of tax	–	–	–	–	131	131
Balance at 31 March 2007	847	10,480	7,206	703	5,482	24,718
Profit for the year	–	–	–	–	1,378	1,378
Share-based payments	–	–	–	–	164	164
Deferred tax on share-based payments	–	–	–	–	3	3
Dividends	–	–	–	–	(591)	(591)
Issue of shares	59	–	–	–	–	59
Premium on shares issued in the year, net of expenses	–	–	–	2,442	–	2,442
Change in fair value of available-for-sale financial asset	–	5,516	–	–	–	5,516
Actuarial gain on pension, net of tax	–	–	–	–	339	339
Balance at 31 March 2008	**906**	**15,996**	**7,206**	**3,145**	**6,775**	**34,028**

28 Capital and reserves CONTINUED

Reconciliation of movement in capital and reserves – Company

	Called up share capital £'000	Financial assets fair value revaluation reserve[1] £'000	Share premium account £'000	Other reserves[2] £'000	Retained earnings £'000	Total equity £'000
Balance at 1 April 2006	838	20,659	7,064	5,389	3,900	37,850
Profit for the year	–	–	–	–	2,279	2,279
Realisation of available-for-sale assets	–	(1,554)	–	–	–	(1,554)
Share-based payments	–	–	–	–	101	101
Deferred tax on share-based payments	–	–	–	–	(43)	(43)
Dividends	–	–	–	–	(545)	(545)
Issue of shares	9	–	–	–	–	9
Premium on shares issued in the year, net of expenses	–	–	142	–	–	142
Change in fair value of available-for-sale financial assets	–	(8,625)	–	–	–	(8,625)
Balance at 31 March 2007	847	10,480	7,206	5,389	5,692	29,614
Profit for the year	–	–	–	–	20,381	20,381
Share-based payments	–	–	–	–	164	164
Deferred tax on share-based payments	–	–	–	–	2	2
Dividends	–	–	–	–	(591)	(591)
Issue of shares	59	–	–	–	–	59
Premium on shares issued in the year, net of expenses	–	–	–	2,442	–	2,442
Disposal of available-for-sale financial assets	–	(10,480)	–	–	–	(10,480)
Balance at 31 March 2008	**906**	**–**	**7,206**	**7,831**	**25,648**	**41,591**

[1] Financial assets fair value revaluation reserve

The fair value reserve includes the cumulative net change in fair value of available-for-sale financial assets until the investment is derecognised or impaired.

A profit of £20,381,000 *(2007: £2,279,000)* has been dealt with in the accounts of the Parent Company. As permitted by Section 230 of the Companies Act 1985, the Company has not presented its own profit and loss account.

Of the profit of £20,381,000 dealt with in the accounts of the Company, a profit of £20,530,000 arose on the disposal by the Company of its shares in Falkland Oil and Gas Limited to Erebus Limited, a subsidiary company. As the sale was funded by a reinvestment by the Company in redeemable preference shares and loans to Erebus Limited the profit is unrealised and hence not available for distribution.

[2] Other reserves

Other reserves arose on acquisition by FIH of the Falkland Islands group of companies on formation. The premium on shares issued to acquire Momart International Limited in the year has been credited to other reserves.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2008

28 Capital and reserves CONTINUED

Share capital

In thousands of shares	Ordinary shares 2008	2007
On issue at 1 April	**8,468,130**	8,379,158
Issued for cash	**10,000**	88,972
Issued as acquisition consideration	**582,666**	–
On issue at 31 March – fully paid	**9,060,796**	8,468,130

	2008 £'000	2007 £'000
Authorised:		
12,500,000 *(2007: 12,500,000)* ordinary shares of 10p each	**1,250**	1,250
Allotted, called up and fully paid:		
9,060,796 *(2007: 8,468,130)* ordinary shares of 10p each	**906**	847

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

On 31 March 2000, an Employee Share Ownership Plan was established. At 31 March 2008 the plan held 36,212 *(2007: 48,917)* ordinary shares at a cost of £54,236 *(2007: £73,265)*. The market value of the shares at 31 March 2008 was £133,079 *(2007: £117,400)*. Shares held in the ESOP have had their rights to dividends waived, as in prior years.

There were 153,996 *(2007: none)* share options outstanding under the Company's Saving Related Share Option Scheme ("Save As You Earn") at 31 March 2008.

For more information on share options please see note 27.

Dividends

The following dividends were recognised in the period:

	2008 £'000	2007 £'000
7.0p *(2007: 6.5p)* per qualifying ordinary share	**591**	545

After the balance sheet date dividends of 8.0p (£722,000) per qualifying ordinary share *(2007: 7.0p) (£591,000)* were proposed by the Directors. The dividends have not been provided for.

29 Financial instruments

(i) Fair values of financial instruments

Investments in equity securities

The fair value of available-for-sale financial assets is determined by reference to their quoted bid price at the balance sheet date.

Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date if the effect is material.

29 Financial instruments CONTINUED

Trade and other payables

The fair value of trade and other payables is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date if the effect is material.

Cash and cash equivalents

The fair value of cash and cash equivalents is estimated as its carrying amount where the cash is repayable on demand. Where it is not repayable on demand then the fair value is estimated at the present value of future cash flows, discounted at the market rate of interest at the balance sheet date.

Interest-bearing borrowings

Fair value, which after initial recognition is determined for disclosure purposes only, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the balance sheet date.

Derivative financial instruments

The fair value of derivative financial instruments is determined by their market value at the reporting date.

IAS 39 categories and fair values

The fair values of financial assets and financial liabilities are not materially different to the carrying values shown in the consolidated balance sheet and Company balance sheet.

The following table shows the carrying value for each category of financial instrument:

	Group		Company	
	2008 £'000	2007 £'000	**2008 £'000**	2007 £'000
Available-for-sale financial assets at fair value	**18,450**	12,900	**–**	12,900
Financial liabilities at amortised cost	**(7,595)**	(4,247)	**(1,071)**	(298)
Interest bearing borrowings at amortised cost	**(7,579)**	(1,100)	**(7,579)**	(1,100)
Derivative financial instruments	**(72)**	(1)	**(72)**	(1)
Trade and other receivables	**5,353**	2,384	**732**	222

(ii) Credit risk

Financial risk management

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

Group

The Group's credit risk is primarily attributable to its trade receivables. The maximum credit risk exposure of the Group comprises the amounts presented in the balance sheet, which are stated net of provisions for doubtful debt. A provision is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of future cash flows. Management has credit policies in place to manage risk on an ongoing basis. These include the use of customer specific credit limits.

Company

The majority of the Company's receivables are with subsidiaries. The Company does not consider these counter-parties to be a significant credit risk.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. Therefore, the maximum exposure to credit risk at the balance sheet date was £8,560,000 *(2007: £7,521,000)* being the total trade receivables, other financial assets and cash and cash equivalents in the balance sheet.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2008

29 Financial instruments CONTINUED

The maximum exposure to credit risk for trade receivables at the balance sheet date by geographic region was:

	Group		Company	
	2008	2007	**2008**	2007
	£'000	£'000	**£'000**	£'000
Falkland Islands	**1,462**	2,082	**–**	–
Europe	**527**	–	**–**	–
North America	**458**	–	**–**	–
United Kingdom	**1,722**	17	**–**	–
Other	**176**	–	**–**	–
Trade receivables	**4,345**	2,099	**–**	–

The Company has no trade receivables.

Credit quality of financial assets and impairment losses

Group	**Gross 2008 £'000**	**Impairment 2008 £'000**	**Net 2008 £'000**	Gross 2007 £'000	Impairment 2007 £'000	Net 2007 £'000
Not past due	**2,023**	**–**	**2,023**	1,440	–	1,440
Past due 0 – 30 days	**1,276**	**–**	**1,276**	382	–	382
Past due 31 – 120 days	**826**	**–**	**826**	140	–	140
More than 120 days	**302**	**82**	**220**	215	78	137
	4,427	**82**	**4,345**	2,177	78	2,099

The movement in the allowances for impairment in respect of trade receivables during the year was:

	Group		Company	
	2008	2007	**2008**	2007
	£'000	£'000	**£'000**	£'000
Balance at 1 April 2007	**78**	71	**–**	–
Impairment loss recognised	**23**	7	**–**	–
Impairment loss reversed	**(19)**	–	**–**	–
Balance at 31 March 2008	**82**	78	**–**	–

The allowance account for trade receivables is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amounts considered irrecoverable are written off against the trade receivables directly.

29 Financial instruments CONTINUED

No further analysis has been provided for cash and cash equivalents, trade receivables from Group companies, other receivables and other financial assets as there is limited exposure to credit risk and no provisions for impairment have been recognised.

(iii) Liquidity risk

Financial risk management

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

Group and Company

At the beginning of the period the Group had outstanding bank loans of £2.7 million and unsecured loan note commitments of £0.04 million. All payments due during the year with respect to these agreements were met as they fell due. During the year in connection with the acquisition of Momart International Limited the Group acquired additional bank loans of £4.0 million and a bank guarantee of £3.2 million for the deferred consideration due under the deal. In addition the Group has obtained a £2.0 million Revolving Credit facility to fund working capital requirements which remained undrawn at the year end.

The Group manages its cash balances centrally at head office and prepares rolling cash flow forecasts to ensure funds are available to meets its secured and unsecured commitments as and when they fall due.

Liquidity risk – Group

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the effects of netting agreements:

2008	Carrying amount £'000	Contractual cash flows £'000	1 year or less £'000	1 to 2 years £'000	2 to 5 years £'000	5 years and over £'000
Non-derivative financial instruments						
Secured bank loans	5,994	7,321	912	888	3,428	2,093
Finance leases	40	40	23	17	–	–
Contingent consideration	3,022	3,268	1,615	1,653	–	–
Trade and other payables	7,595	7,595	7,595	–	–	–
	16,651	**18,224**	**10,145**	**2,558**	**3,428**	**2,093**

2007	Carrying amount £'000	Contractual cash flows £'000	1 year or less £'000	1 to 2 years £'000	2 to 5 years £'000	5 years and over £'000
Non-derivative financial instruments						
Secured bank loans	2,733	3,189	828	612	1,088	661
Bank overdrafts	–	–	–	–	–	–
Trade and other payables	4,247	4,247	4,247	–	–	–
	6,980	7,436	5,075	612	1,088	661

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2008

29 Financial instruments CONTINUED

Liquidity risk – Company

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the effects of netting agreements:

2008	Carrying amount £'000	Contractual cash flows £'000	1 year or less £'000	1 to 2 years £'000	2 to 5 years £'000	5 years and over £'000
Non-derivative financial instruments						
Secured bank loans	4,558	5,748	684	660	2,744	1,660
Contingent consideration	3,022	3,268	1,615	1,653	–	–
Trade and other payables	1,071	1,071	1,071	–	–	–
	8,651	**10,087**	**3,370**	**2,313**	**2,744**	**1,660**

2007	Carrying amount £'000	Contractual cash flows £'000	1 year or less £'000	1 to 2 years £'000	2 to 5 years £'000	5 years and over £'000
Non-derivative financial instruments						
Secured bank loans	1,057	1,388	600	384	404	–
Bank overdrafts	–	–	–	–	–	–
Trade and other payables	298	298	298	–	–	–
	1,355	1,686	898	384	404	–

(iv) Market risk

Financial risk management

Market risk is the risk that changes in market prices, such as foreign exchange, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments

Market risk – Foreign currency risk

The Group has exposure to foreign currency risk arising from trade and other payables which are denominated in foreign currencies. The Group is not, however, exposed to any significant transactional foreign currency risk. The Group's exposure to foreign currency risk is as follows. This is based on carrying amounts for monetary financial instruments.

Group 31 March 2008	EUR £'000	USD £'000	Other £'000	Total £'000
Cash and cash equivalents	3	56	–	**59**
Trade payables and other payables	(321)	(235)	(90)	**(646)**
Balance sheet exposure	(318)	(179)	(90)	**(587)**

29 Financial instruments CONTINUED

Group 31 March 2007	EUR £'000	USD £'000	Other £'000	Total £'000
Cash and cash equivalents	5	70	–	75
Balance sheet exposure	5	70	–	75

The Company has no exposure to foreign currency risk.

Sensitivity analysis
Group

A 10% percent weakening of the following currencies against the pound sterling at 31 March would have increased / (decreased) equity and profit or loss by the amounts shown below. This calculation assumes that the change occurred at the balance sheet date and had been applied to risk exposures existing at that date.

This analysis assumes that all other variables, in particular other exchange rates and interest rates, remain constant and is performed on the same basis for the year ended 31 March 2007.

	Equity		Profit or loss	
	2008 **£'000**	2007 £'000	**2008** **£'000**	2007 £'000
EUR	**32**	–	**32**	–
USD	**18**	7	**18**	7

A 10% percent strengthening of the above currencies against the pound sterling at 31 March would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Market risk – interest rate risk

Profile
At the balance sheet date the interest rate profile for the Group's interest-bearing financial instruments was:

	Group		Company	
	2008 **£'000**	2007 £'000	**2008** **£'000**	2007 £'000
Fixed rate financial instruments:				
Finance leases receivable	**212**	178		–
Finance leases payable	**(40)**	–		–
Contingent consideration	**(3,022)**	–	**(3,022)**	–
	(2,850)	178	**(3,022)**	–
Variable rate financial instruments:				
Financial liabilities	**(5,994)**	(2,733)	**(4,561)**	(1,057)
	(5,994)	(2,733)	**(4,561)**	(1,057)

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2008

29 Financial instruments CONTINUED

The Group has a loan of £1.4 million *(2007: £1.7 million)* in respect of the ferry delivered in 2005. The loan is repayable over a 10 year period from June 2005 and bears interest at 1.4% above the base rate. The loan has been hedged with an interest rate cap of 6.5% and a floor of 4.25%. At 31 March 2008 the fair value of both these instruments was a liability of £7,166 *(2007: £1,109)*.

During the year the Group acquired a further loan of £4.0 million in respect of the acquisition of Momart International Limited. The loan is repayable over five years commencing in February 2010 and bears interest at 2% above the base rate. The loan has been hedged with a base rate cap of 6.25% and a floor of 4.25%. At 31 March 2008 the fair value of both these instruments was a liability of £65,549.

Interest on the bank guarantee for the deferred consideration payable in respect of the acquisition of Momart International Limited accrues at 2% and is payable monthly.

Sensitivity analysis

A change of 100 basis points in interest rates at the balance sheet date would have increased / (decreased) equity and profit or loss by the amounts shown below. This calculation assumes that the change occurred at the balance sheet date and had been applied to risk exposures existing at that date.

This analysis assumes that all other variables, in particular foreign currency rates, remain constant and considers the effect of financial instruments with variable interest rates, financial instrument at fair value through profit or loss or available for sale with fixed interest rates and the fixed rate element of interest rate swaps. The analysis is performed on the same basis for 31 March 2007.

	Group		Company	
	2008 £'000	2007 £'000	**2008 £'000**	2007 £'000
Equity:				
Increase	**–**	–	**–**	–
Decrease	**(21)**	(27)	**(7)**	(11)
Profit or loss:				
Increase	**–**	–	**–**	–
Decrease	**(21)**	(27)	**(7)**	(11)

Market risk – equity price risk

The Group's and Company's exposure to equity price risk arises from its investments in equity securities which are classified as available-for-sale financial assets and are shown in the balance sheet as other financial assets (see note 16).

Sensitivity analysis

The Group's available-for-sale financial assets comprise its investment in Falklands Oil and Gas Limited. During the year ended 31 March 2008 Falklands Oil and Gas Limited shares traded on the AIM market of the London Stock Exchange at an average price of 116.8p with a high of 181.0p and a low of 72.5p. Based upon this share price history the value of available-for-sale financial assets held at the balance sheet date could have varied between a low of £10,875,000 *(2007: £10,050,000)* and a high of £27,150,000 *(2007: £22,854,000)*.

(v) Capital Management

The Group's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can continue to provide returns to shareholders and benefits to other stakeholders.

30 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	Group	
	2008 £'000	2007 £'000
Less than one year	564	7
Between one and five years	2,184	–
More than five years	7,478	–
	10,226	7

The Group leases three office premises and a number of storage warehouses under operating leases. Office leases typically run for a period of 3 years, with an option to renew the lease after that date. Warehouse leases typically run for a period of 25 years, with an option to renew the lease after that date.

Group

During the year £67,000 was recognised as an expense in the income statement in respect of operating leases *(2007: £71,000)*.

The Company had no operating lease commitments.

31 Capital commitments

At the end of the year the Group had no capital commitments not provided for in these financial statements.

32 Related parties

The Group has a related party relationship with its subsidiaries (see note 15) and with its directors and executive officers.

Transactions with key management personnel

During the year the Falkland Islands Company Limited sold four small uninhabitable conservation protected islands off the coast of East Falkland to Sir Harry Solomon, a non-executive director of the Company. The price of £20,000 paid for the islands was the current market price, with reference to a similar transaction with an unrelated party. The Group made a gain of £10,000 on this transaction, under which no amounts are outstanding.

Directors of the Company and their immediate relatives control 14.4% per cent of the voting shares of the Company.

The compensation of key management personnel (including directors and senior management teams at subsidiaries) is as follows:

	Group		Company	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Key management emoluments including social security costs	802	636	527	393
Company contributions to money purchase pension plans	60	30	24	23
Other post employment benefits	5	–	–	–
Share-related awards	103	59	76	59
Total key management personnel compensation	970	725	627	475

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2008

33 Subsequent events

On 3 April 2008 the Group issued 84,000 share options to senior management at Momart Limited; they have an exercise price of £3.65 and vest on 2 April 2011.

34 Accounting estimates and judgements

The preparation of financial statements in conformity with adopted IFRS requires management to make judgements, estimates and assumptions that effect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based upon historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of the judgements as to asset and liability carrying values which are not readily apparent from other sources. Actual results may vary from these estimates, and taken into account in periodic reviews of the application of such estimates and assumptions.

Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

Actuarial assumptions have been used to value the defined benefit pension liability. Management have selected these assumptions from a range of possible options following consultations with independent actuarial advisors.

Impairment tests have been undertaken with respect to intangible assets (see note 12 for further details) using commercial judgment and a number of assumptions and estimates have been made to support their carrying amounts. In determining the fair value of intangible assets recognised on the acquisition of Momart International Limited management acted after consultation with independent intangible asset valuation advisors.

35 Explanation of transition to IFRS

As stated in note 1, these are the Group's first consolidated financial statements prepared in accordance with Adopted IFRS.

The accounting policies set out in note 1 have been applied in preparing the financial statements for the year ended 31 March 2008, the comparative information presented in these financial statements for the year ended 31 March 2007 and in the preparation of an opening IFRS balance sheet as at 1 April 2006 (the Group's date of transition).

In preparing its opening IFRS balance sheet, the Group has adjusted amounts reported previously in financial statements prepared in accordance with its former basis of accounting (UK GAAP). An explanation of how the transition from UK GAAP to Adopted IFRS has affected the Group's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

35 Explanation of transition to IFRS CONTINUED

Reconciliation of equity – Group

Notes		Previous GAAP £'000	Effect of transition to IFRS 1 April 2006 £'000	IFRS £'000	Previous GAAP £000	Effect of transition to IFRS 31 March 2007 £'000	IFRS £'000
	Non-current assets						
a	Intangible assets	3,979	–	3,979	3,775	204	3,979
	Property, plant and equipment	6,422	–	6,422	6,268	–	6,268
	Investment properties	1,620	–	1,620	1,588	–	1,588
b	Financial assets	2,610	20,659	23,269	2,420	10,480	12,900
	Other financial assets	48	–	48	45	–	45
c	Deferred tax assets	–	699	699	–	648	648
	Total non-current assets	14,679	–	36,037	14,096	–	25,428
	Current assets						
	Inventories	3,107	–	3,107	2,677	–	2,677
	Trade and other receivables	1,647	–	1,647	2,384	–	2,384
	Income tax receivable	46	–	46	–	–	–
	Other financial assets	96	–	96	133	–	133
	Cash and cash equivalents	3,601	–	3,601	4,959	–	4,959
	Total current assets	8,497	–	8,497	10,153	–	10,153
	TOTAL ASSETS	23,176	–	44,534	24,249	–	35,581
	Current liabilities						
	Interest-bearing loans and borrowings	(542)	–	(542)	(542)	–	(542)
	Income tax payable	(424)	–	(424)	(570)	–	(570)
h	Derivative financial instrument	–	(8)	(8)	–	(1)	(1)
d	Trade and other payables	(3,831)	(32)	(3,863)	(4,198)	(49)	(4,247)
	Total current liabilities	(4,797)	–	(4,837)	(5,310)	–	(5,360)
	Non-current liabilities						
	Interest-bearing loans and borrowings	(2,765)	–	(2,765)	(2,191)	–	(2,191)
e	Pension liabilities	(1,909)	(699)	(2,608)	(1,869)	(648)	(2,517)
f	Deferred tax liabilities	(853)	46	(807)	(744)	(51)	(795)
	Total non-current liabilities	(5,527)	–	(6,180)	(4,804)	–	(5,503)
	TOTAL LIABILITIES	(10,324)	–	(11,017)	(10,114)	–	(10,863)
	Net assets	12,852	–	33,517	14,135	–	24,718
	Capital and reserves						
	Called up share capital	838	–	838	847	–	847
	Share premium account	7,064	–	7,064	7,206	–	7,206
	Other reserves	703	–	703	703	–	703
a, d, f	Retained earnings	4,247	6	4,253	5,379	103	5,482
b	Fair value reserve	–	20,659	20,659	–	10,480	10,480
	Equity shareholders' funds	12,852	–	33,517	14,135	–	24,718

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2008

35 Explanation of transition to IFRS CONTINUED

Reconciliation of profit for the year ended 31 March 2007 – Group

Notes		UK GAAP £'000	Effect of transition to Adopted IFRS £'000	Adopted IFRS £'000
	Revenue	15,618	–	15,618
	Cost of sales	(9,531)	–	(9,531)
	Gross profit	6,087	–	6,087
	Pension scheme restructuring costs	(105)	–	(105)
d	Other administrative expenses	(4,606)	(17)	(4,623)
	Administrative expenses	(4,711)	–	(4,728)
	Other operating income	338	–	338
a	Goodwill amortisation	(204)	204	–
	Profit on disposal of financial investment	485	–	485
	Operating profit before financing costs	1,995	–	2,182
	Financing income	205	7	212
	Financing expense	(236)	–	(236)
	Pension scheme net financing cost	(124)	–	(124)
	Net financing costs	(155)	–	(148)
	Profit before tax	1,840	–	2,034
f	Taxation	(394)	(55)	(449)
	Profit on ordinary activities after tax	1,446	–	1,585

35 Explanation of transition to IFRS CONTINUED

Reconciliation of equity – Company

Notes		Previous GAAP £'000	Effect of transition to IFRS £'000	IFRS 1 April 2006 £'000	Previous GAAP £'000	Effect of transition to IFRS £'000	IFRS 31 March 2007 £'000
	Non-current assets						
b	Financial assets – investment in equity securities	2,610	20,659	23,269	2,420	10,480	12,900
g	Financial assets – investment in subsidiaries	15,044	24	15,068	15,044	61	15,105
	Total non-current assets	17,654	–	38,337	17,464	–	28,005
	Current assets						
	Trade and other receivables	333	–	333	222	–	222
	Cash and cash equivalents	1,055	–	1,055	2,786	–	2,786
	Total current assets	1,388	–	1,388	3,008	–	3,008
	TOTAL ASSETS	19,042	–	39,725	20,472	–	31,013
	Current liabilities						
	Interest-bearing loans and borrowings	(300)	–	(300)	(300)	–	(300)
	Trade and other payables	(481)	–	(481)	(341)	–	(341)
h	Derivative financial instrument	–	(8)	(8)	–	(1)	(1)
	Total current liabilities	(781)	–	(789)	(641)	–	(642)
	Non-current liabilities						
	Interest-bearing loans and borrowings	(1,132)	–	(1,132)	(757)	–	(757)
f	Deferred tax liabilities	–	46	46	–	–	–
	Total non-current liabilities	(1,132)	–	(1,086)	(757)	–	(757)
	TOTAL LIABILITIES	(1,913)	–	(1,875)	(1,398)	–	(1,399)
	Net assets	17,129	–	37,850	19,074	–	29,614
	Capital and reserves						
	Called up share capital	838	–	838	847	–	847
	Share premium account	7,064	–	7,064	7,206	–	7,206
	Other reserves	5,389	–	5,389	5,389	–	5,389
f, g	Retained earnings	3,838	62	3,900	5,632	60	5,692
b	Fair value reserve	–	20,659	20,659	–	10,480	10,480
	Equity shareholders' funds	17,129	–	37,850	19,074	–	29,614

The impact on the Company's profit for the year ended 31 March 2007 on transition to Adopted IFRS was a gain of £41,000 as explained in the notes below.

Notes to the transition to Adopted IFRS reconciliations

a Under IAS 38 "Intangible Assets" and IFRS 3 "Business Combinations" goodwill arising as a result of a business combination is recognised at cost and capitalised, but is not subject to amortisation, as was previously the case under UK GAAP. Instead, the carrying value of such goodwill is reviewed at least annually for impairment. An adjustment is therefore required to reverse the goodwill amortisation charges for the year ended 31 March 2007.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2008

35 Explanation of transition to IFRS CONTINUED

b Under the terms of IAS 39 "Financial Instruments: Recognition and Measurement" the Group's investments in Falklands Oil and Gas Limited ("FOGL") and Falklands Gold and Minerals Limited ("FGML") at the transition date are deemed to be 'available-for-sale' financial assets. Under IFRS available-for-sale financial instruments are stated at fair value, with any resultant gain or loss being recognised directly in equity, except for impairment losses. When these items are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in profit and loss.

The fair value of financial instruments classified as available for sale is their quoted bid price at the balance sheet date.

Investments at UK GAAP cost	2,610	2,420
Investments at IFRS fair value	23,269	12,900
Revaluation made	20,659	10,480
Bid price at balance sheet date:		
FOGL	143.5p	86.0p
FGML	15.5p	–
Shareholding at balance sheet date:		
FOGL	15,000,000	15,000,000
FGML	11,250,000	–

The Group's holding in FGML was sold on 12 January 2007 and as a result the asset de-recognised. On de-recognition IAS 39 requires the balance on the revaluation reserve relating to the asset to be transferred to the profit and loss account. There is no impact on the gain on disposal recognised previously under UK GAAP from IFRS adoption, and accordingly no impact on the profit and loss account for the period.

c/e As discussed in note 1, the Group has elected to recognise all cumulative actuarial gains and losses as an adjustment to opening retained earnings on transition in keeping with FRS 17, adopted under UK GAAP for the first time for the year ending 31 March 2006.

However, whereas previously under UK GAAP the liability as regards defined benefit plans was recognised net of its related deferred tax asset, under IAS 19 "Employee Benefits", the gross liability is to be shown on the face of the balance sheet. In addition, IAS 12 "Income Taxes" requires deferred tax assets and liabilities to be separately categorised on the balance sheet as non-current items.

d IAS 19 also requires companies to provide for holiday pay based on the number of days leave at each reporting date that employees are entitled to but have not used, and that can be used (or paid) in future periods. The holiday pay accrual required was £32,000 at 1 April 2006 and £49,000 at 31 March 2007.

f IAS 12 differs from UK GAAP in its treatment of deferred tax on the charge for share-based payments by requiring the Company to recognise a deferred tax asset based on the intrinsic tax value of the option at the accounting date. On conversion this represented a deferred tax asset of £46,000, which reversed in the year to 31 March 2007 with the reversal being accounted for as a £3,000 increase to the tax charge for the year then ended and the balance of £43,000 being taken directly to equity.

g IFRIC 11 requires, in common with UITF 44 under UK GAAP, that for accounting periods commencing on or after 1 March 2007 charges for share-based payments which relate to services rendered by employees of subsidiary entities are accounted for in the holding company as additional costs of investment in the subsidiary. There is no adjustment required on consolidation with regards to the adoption of IFRIC 11.

There are no material differences between the cash flow statement presented under Adopted IFRS and the cash flow statement presented under UK GAAP.

Under UK GAAP, the parent company was not required to, and did not, present a cash flow statement.

35 Explanation of transition to IFRS CONTINUED

h IAS 39 requires that derivative financial instruments are stated at mark-to-market fair value at the balance sheet date with any change in the year on remeasurement taken to the income statement as finance expense or income.

At 1 April 2006 the Group and Company had an interest rate cap and interest rate floor to hedge against interest rate exposure on its £1.9 million secured bank loan in respect of a new ferry. The fair value and profit and loss impact of these instruments were as follows:

	Liability fair value £'000	Group Gain / (loss) £'000	Company Gain / (loss) £'000
As at 1 April 2006	8	–	–
Remeasurement for year ending 31 March 2007	(7)	7	7
As at 31 March 2007	1		

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